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In The

Supreme Court of the United States

IMPROV WEST ASSOCIATES and
CALIFORNIA COMEDY, INC.,

Petitioners,

v.

COMEDY CLUB, INC. and
AL COPELAND INVESTMENTS, INC.,

Respondents.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

The decision below implicates a clear conflict among the Courts of Appeals as to whether "manifest disregard of the law" is a valid ground for vacatur of an arbitration award under the Federal Arbitration Act. This is the second petition for a writ of certiorari filed in this case. Last year, this Court granted the Petitioners' previous certiorari petition and vacated the Ninth Circuit's decision vacating in part an arbitrator's reasoned and good faith award on the non-statutory ground of "manifest disregard of the law." This Court remanded the case to the Ninth Circuit for further consideration in light of *Hall Street Associates, L.L.C. v. Mattel, Inc.*, 552 U.S. ___, 128 S. Ct. 1396, 170 L. Ed. 2d 254 (2008). The Ninth Circuit did not heed this Court's instructions on remand, but instead reinstated its prior decision with no more than a passing discussion of *Hall Street*. This petition presents the following questions:

1. Whether "manifest disregard of the law" is a valid ground for vacatur of an arbitration award under the Federal Arbitration Act.

2. Whether the Federal Arbitration Act allows for vacatur of an arbitration award based upon an arbitrator's good faith but, in the view of the reviewing court, "fundamentally incorrect" interpretation of state law.

CORPORATE DISCLOSURE STATEMENT

The Petitioners, Improv West Associates and California Comedy, Inc., have no parent corporations, and no publicly held company owns 10% or more of their stock.

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PETITION FOR WRIT OF CERTIORARI

Petitioners Improv West Associates and California Comedy, Inc. petition this Court for a writ of certiorari to review the judgment of the United States Court of Appeals for the Ninth Circuit entered in this case on January 29, 2009. The Ninth Circuit denied the Petitioners' petition for rehearing *en banc* on March 10, 2009.

OPINIONS BELOW

The Arbitrator's Order Re Motions for Summary Adjudication is reprinted at Petitioner's Appendix ("App.") K. The Arbitrator's Opinion denying the Respondents' motion for reconsideration is reprinted at Petitioners' Appendix F.

The District Court's Order Confirming Arbitration Award, dated April 12, 2005, is reprinted at Petitioners' Appendix J.

The published opinion of the United States Court of Appeals for the Ninth Circuit affirming in part, vacating in part, and remanding to the District Court for further proceedings, dated September 7, 2007, is reprinted at Petitioners' Appendix D.

The published amended opinion of the United States Court of Appeals for the Ninth Circuit affirming in part, vacating in part, and remanding to the District Court for further proceedings, dated January 23, 2008, is reprinted at Petitioners' Appendix C.

The order of this Court granting Petitioners' petition for a writ of certiorari, dated October 6, 2008, is reprinted at Petitioners' Appendix B.

The published opinion of the United States Court of Appeals for the Ninth Circuit affirming in part, vacating in part, and remanding to the District Court for further proceedings, dated January 29, 2009, is reprinted at Petitioners' Appendix A.

The order of the United States Court of Appeals for the Ninth Circuit denying Petitioners' petition for rehearing *en banc*, dated March 10, 2009, is reprinted at Petitioners' Appendix M.

JURISDICTION

The United States Court of Appeals for the Ninth Circuit entered judgment on January 29, 2009, and denied the Petitioners' petition for rehearing *en banc* on March 10, 2009. This Court has jurisdiction pursuant to 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

The Federal Arbitration Act, 9 U.S.C. §§ 9-11, provides:

> § 9. Award of arbitrators; confirmation; jurisdiction; procedure
>
> If the parties in their agreement have agreed that a judgment of the court shall be entered upon the award made pursuant to the arbitration, and shall specify the court, then at any time within one year after the award is made any party to the arbitration may apply to the court so specified for an order confirming the award, and thereupon the court must grant such an order unless the award is vacated, modified, or corrected as prescribed in sections 10 and 11 of this title. If no court is specified in the agreement of the parties, then such application may be made to the United States court in and for the district within which such award was made. Notice of the application shall be served upon the adverse party, and thereupon the court shall have jurisdiction of such party as though he had appeared generally in the proceeding. If the adverse party is a resident of the district within which the award was made, such service shall be made upon the adverse party or his attorney as prescribed by law for service of notice of motion in an action in the same court. If the adverse party shall be a nonresident, then the notice of the application shall be served by the marshal of any district within which

the adverse party may be found in like manner as other process of the court.

§ 10. Same; vacation; grounds; rehearing

(a) In any of the following cases the United States court in and for the district wherein the award was made may make an order vacating the award upon the application of any party to the arbitration –

(1) where the award was procured by corruption, fraud, or undue means;

(2) where there was evident partiality or corruption in the arbitrators, or either of them;

(3) where the arbitrators were guilty of misconduct in refusing to postpone the hearing, upon sufficient cause shown, or in refusing to hear evidence pertinent and material to the controversy; or of any other misbehavior by which the rights of any party have been prejudiced; or

(4) where the arbitrators exceeded their powers, or so imperfectly executed them that a mutual, final, and definite award upon the subject matter submitted was not made.

(b) If an award is vacated and the time within which the agreement required the award to be made has not expired, the court

may, in its discretion, direct a rehearing by the arbitrators.

(c) The United States district court for the district wherein an award was made that was issued pursuant to section 580 of title 5 may make an order vacating the award upon the application of a person, other than a party to the arbitration, who is adversely affected or aggrieved by the award, if the use of arbitration or the award is clearly inconsistent with the factors set forth in section 572 of title 5.

§ 11. Same; modification or correction; grounds; order

In either of the following cases the United States court in and for the district wherein the award was made may make an order modifying or correcting the award upon the application of any party to the arbitration –

(a) Where there was an evident material miscalculation of figures or an evident material mistake in the description of any person, thing, or property referred to in the award.

(b) Where the arbitrators have awarded upon a matter not submitted to them, unless it is a matter not affecting the merits of the decision upon the matter submitted.

(c) Where the award is imperfect in matter of form not affecting the merits of the controversy.

The order may modify and correct the award, so as to effect the intent thereof and promote justice between the parties.

STATEMENT OF THE CASE

This case comes before this Court for the second time in less than a year as a result of the Ninth Circuit's reinstatement of its previously vacated decision holding that an arbitrator's good faith but, in the view of the reviewing court, "fundamentally incorrect" interpretation of state law constitutes "manifest disregard of the law" for which an arbitration award may be vacated under the Federal Arbitration Act ("FAA").

The Petitioners and the Respondents are parties to a Trademark License Agreement dated June 13, 1999 (the "Agreement") pursuant to which the Petitioners granted the Respondents a license to use the Petitioners' "IMPROV" and "IMPROVISATION" trademarks, along with related trade dress and trade secrets, in connection with comedy club franchises across the country through May 13, 2019. The Agreement contains a covenant that restrains the Respondents from operating competing comedy clubs during the term of the Agreement. A number of disputes arose between the parties that were collectively

submitted to mandatory arbitration under the Agreement. One of those disputes was a challenge by the Respondents to the enforceability of the covenant under California Business and Professions Code § 16600 ("CBPC § 16600").

The arbitrator issued two reasoned orders in which he carefully considered CBPC § 16600 and cases applying the statute and ruled that the covenant not to compete was enforceable during the term of the Agreement. App. F & G. Pertinent portions of the arbitrator's analysis are excerpted below:

> . . . Although the language of Section 16600 is broad in scope, court decisions have upheld agreements limiting competition in a variety of contexts. For example, it has been held that Section 16600 applies only to covenants preventing one from engaging in an *entire* business, trade or profession." *Campbell v. Board of Trustees of Stanford University*, 817 F.2d 499, 502 (9th Cir. 1987). And covenants not to compete *during the term* of an employment agreement or distribution contract are regularly upheld. *Shaklee U.S., Inc. v. Giddens*, 1991 U.S. App. LEXIS 11617, *8-9 (9th Cir. 1991).
>
> . . .
>
> The authorities cited by the parties support the enforceability of in-term covenants not to compete. Such covenants have been held enforceable during the terms of employments agreements, *Fowler v. Varian Assoc's Inc.*, 196 Cal. App. 3d 34, 44 (1987),

supplier-distributor arrangements, *Shaklee U.S., Inc. v. Giddens*, 1991 U.S. App. LEXIS 11617 (9th Cir. 1991), and franchise agreements. *Keating v. Baskin-Robbins, USA, Co.*, 2001 WL 407017 (E.D.N.C.) (applying California law) and *Great Frame-Up Systems, Inc. v. Jazayeri Enterprises, Inc.*, 789 F. Supp. 253 (E.D. Ill. 1992) (applying California law). Although the reasoning in these decisions is sparse, they do emphasize that in-term restrictions are only "partial" restraints on competition, because the restrained party (whether employee, distributor or franchisee) may continue to engage in the relevant business during the term of his or her agreement with the employer, supplier or franchisor. Respondent has not cited any decision invalidating in-term covenants not to compete under Section 16600. The arbitrator finds, therefore, that paragraph 9.j of the Agreement is a valid and enforceable in-term covenant under California law.

. . .

Dayton Time Lock Service, Inc. v. The Silent Watchman Corp., 52 Cal. App. 3d 1 (1975), relied on by Respondent, is inapplicable. That case involved an attack on an exclusive dealing contract under the antitrust laws. The cases cited in the portion of the *Dayton* opinion relied on by Respondent involved the validity of exclusive dealing contracts under the federal Sherman Act. The type of "rule of reason" analysis applied in antitrust cases – involving the determination

> of whether a particular agreement unreasonably restricts competition generally in a defined geographic and product market – is not applicable to a determination of illegality under Section 16600.

App. F at 130-31; App. G at 145, 148-49 (footnote omitted).

The District Court confirmed the award by an order dated August 29, 2005. App. E. In confirming the award, the District Court observed that the arbitrator had "spent several pages explaining its position with regards to the non-compete clause" and that the arbitrator's ruling "finds support in the case law," including both California and out-of-state cases applying CBPC § 16600. *Id.* at 112. The Ninth Circuit nonetheless vacated in part the award based on its view that the arbitrator's reading of the decision of the California Court of Appeal in *Dayton Time Lock Service, Inc. v. Silent Watchman Corp.*, 52 Cal. App. 3d 1 (1975), was "fundamentally incorrect" and that the award was therefore in "manifest disregard of the law." App. D at 97.

The Petitioners filed a petition for a writ of certiorari with this Court. By order dated October 8, 2008, this Court granted the petition, vacated the judgment, and remanded to the Ninth Circuit for further consideration in light of *Hall Street Associates, L.L.C. v. Mattel, Inc.*, 552 U.S. __, 128 S. Ct. 1396, 170 L. Ed. 2d 254 (2008). On remand, the Ninth Circuit reinstated its prior decision practically verbatim, once again vacating the arbitration award for

"manifest disregard of the law" based on the arbitrator's "fundamentally incorrect" reading of *Dayton Time Lock*.

REASONS FOR GRANTING THE PETITION

I. The Ninth Circuit's Decision Implicates A Clear Conflict Among The Circuits As To Whether "Manifest Disregard Of The Law" Is A Valid Ground For Vacatur After *Hall Street*.

This Court held in *Hall Street* that §§ 10 and 11 of the FAA set forth the *exclusive* grounds for vacatur or modification of an arbitration award, and that neither contracting parties nor the courts may prescribe expanded judicial review of awards. 128 S. Ct. at 1406. In the fourteen months since this Court decided *Hall Street*, a profound conflict has arisen among the circuits as to whether the federal common law doctrine of "manifest disregard of the law" remains a valid basis for vacatur.

Only the Fifth Circuit has held that this Court meant what it said in *Hall Street*, and that arbitration awards may not be vacated or modified for "manifest disregard of the law." *Citigroup Global Mkts., Inc. v. Bacon*, 562 F.3d 349 (5th Cir. 2009). The Sixth Circuit has held, in direct conflict with the Fifth Circuit, that the doctrine of "manifest disregard" survives *Hall Street* as a non-statutory ground for vacatur. *Coffee Beanery, Ltd. v. WW, L.L.C.*, 300 Fed.

Appx. 415 (6th Cir. 2008). The Ninth Circuit has taken a third approach, acknowledging this Court's abrogation of "manifest disregard" as a non-statutory ground for vacatur but then grafting the entire doctrine onto the FAA itself. App. A at 24-25.[1]

As a consequence of these wildly inconsistent holdings, the finality of an arbitration award today turns on the fortuity of where an arbitral dispute happens to arise. This is an untenable situation that can be resolved only through the intervention of this Court.

A. "Manifest Disregard" Developed As A Non-Statutory Ground For Vacatur That Is Anchored In Federal Common Law.

Under the terms of 9 U.S.C. § 9, a court "must" confirm an arbitration award unless it is vacated,

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[1] The First Circuit has been internally inconsistent in its decisions after *Hall Street*, sometimes treating "manifest disregard" as having been abolished by *Hall Street*, and other times treating it as alive and well as a non-statutory ground for vacatur. *Compare Ramos-Santiago v. United Parcel Service*, 524 F.3d 120 (1st Cir. 2008), *with Zayas v. Bacardi Corp.*, 524 F.3d 65 (1st Cir. 2008). The Second Circuit has continued to apply the doctrine after *Hall Street*, sometimes as a non-statutory ground for vacatur and other times as a "reconceptualization" of the statutory grounds for vacatur. *Compare Stolt-Nielsen SA v. AnimalFeeds Int'l Corp.*, 548 F.3d 85 (2d Cir. 2008), *with Vaughn v. Leeds, Morelli & Brown, P.C.*, 2009 WL 690024 (2d Cir. Mar. 16, 2009).

modified, or corrected "as prescribed" in §§ 10 and 11. The statutory grounds for vacatur and modification of an arbitration award all concern procedural aberrations in the manner in which an award was rendered. Most of those grounds rise to the level of gross misconduct – such as "corruption," "fraud," "evident partiality," "misconduct," "misbehavior," and "award[s] upon a matter not submitted." *See Hall Street*, 128 S. Ct. at 1404 (explaining that §§ 10 & 11 "address egregious departures from the parties' agreed-upon arbitration"). The only ground with a softer focus is "imperfect[ions]," and a court may correct those only if they go to "[a] matter of form not affecting the merits." 9 U.S.C. § 11(c); *see Hall Street*, 128 S. Ct. at 1404. None of the §§ 10 and 11 grounds allows for review of an arbitration award on the merits.

More than fifty years before *Hall Street*, this Court stated in dictum that "interpretations of the law by the arbitrators in contrast to manifest disregard are not subject, in the federal courts, to judicial review for error in interpretation." *Wilko v. Swan*, 346 U.S. 427, 436-37, 74 S. Ct. 182, 98 L. Ed. 168 (1953). In the half century that followed, virtually every Court of Appeals construed *Wilko* as creating a *non-statutory* ground for vacatur that is rooted in federal common law.[2] As the First Circuit succinctly observed,

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[2] *See Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Bobker*, 808 F.2d 930, 933 (2d Cir. 1986) ("judicially-created ground for vacating [an] arbitration award"); *Dluhos v. Strasberg*, 321 F.3d 365, 369 (3rd Cir. 2003) ("judicially created . . . standard"); *Three*

(Continued on following page)

"[t]he lane of review that has opened out of [the *Wilko*] language is a judicially created one, not to be found in 9 U.S.C. § 10." *Advest, Inc. v. McCarthy*, 914 F.2d 6, 9 n.5 (1st Cir. 1990).

Although each Court of Appeals developed a somewhat different formulation of "manifest disregard," all of the formulations shared one thing in common: Unlike the statutory grounds for vacatur set forth in the FAA, all of which concern procedural aberrations in the manner in which an award is rendered, the common law doctrine of "manifest disregard" sanctioned review of an arbitration award *on the merits*. The scope of this merits-based review was generally quite narrow. Plain or even "clear" legal error would not suffice; rather, the legal error had be "manifest" – in the sense that no qualified person could have reached such a decision – before

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S Del., Inc. v. DataQuick Info. Sys., Inc., 492 F.3d 520, 527 (4th Cir. 2007) ("permissible common law grounds for vacating . . . an award"); *Brabham v. A.G. Edwards & Sons, Inc.*, 376 F.3d 377, 381 (5th Cir. 2004) ("judicially-created 'nonstatutory' ground"); *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Jaros*, 70 F.3d 418, 421 (6th Cir. 1995) ("judicially created basis for vacation"); *Schoch v. InfoUSA, Inc.*, 341 F.3d 785, 788 (8th Cir. 2003) ("judicially created standard[ ] for vacating an arbitration award"); *Luong v. Circuit City Stores, Inc.*, 368 F.3d 1109, 1112 (9th Cir. 2004) ("non-statutory escape valve from an arbitral award"); *Sheldon v. Vermonty*, 269 F.3d 1202, 1206 (10th Cir. 2001) (one of "a handful of judicially created reasons" for vacatur); *Peebles v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 431 F.3d 1320, 1326 (11th Cir. 2005) (one of several "non-statutory bases for vacatur").

vacatur could be ordered. *See, e.g.*, *Jaros*, 70 F.3d at 421 ("the decision must fly in the face of clearly established legal precedent"); *Bobker*, 808 F.2d at 933 ("error must have been obvious and capable of being readily and instantly perceived by the average person qualified to serve as an arbitrator"); *Advest*, 914 F.2d at 8 ("based on reasoning so palpably faulty that no judge, or group of judges, ever could conceivably have made such a ruling"). Even in its narrowest formulations, however, manifest disregard stood in stark contrast to the FAA grounds for vacatur, none of which sanctioned any review on the merits.

B. *Hall Street* Abrogated All Non-Statutory Grounds For Vacatur.

Prior to *Hall Street*, every circuit other than the Seventh Circuit had recognized one or more common law grounds for vacatur, such as where the award was "arbitrary and capricious," "completely irrational," "contrary to public policy," or "in manifest disregard of the law." *See, e.g.*, *Three S*, 492 F.3d at 527 ("permissible common law grounds for vacating . . . an award"); *Peebles*, 431 F.3d at 1326 ("three non-statutory bases for vacatur"); *Sheldon*, 269 F.3d at 1206 ("handful of judicially created reasons" for vacatur). Only the Seventh Circuit strictly limited judicial review of arbitration awards to the grounds enumerated in §§ 10 and 11. *See Chameleon Dental Products, Inc. v. Jackson*, 925 F.2d 223, 226 (7th Cir. 1991).

While judicial expansion of the statutory grounds for vacatur was widely accepted before *Hall Street*, the Courts of Appeals were more closely divided as to whether private parties could vary the FAA standards by contract. *See Hall Street*, 128 S. Ct. at 1403 & n.5. This was the issue squarely presented in *Hall Street*, in which this Court held that parties may not contract for expanded judicial review. *Id.* at 1406. *Hall Street*'s significance, however, is not limited to attempted contractual expansions of the statutory grounds for vacatur. Rather, *Hall Street* holds that the grounds set forth in § 10 of the FAA are the "exclusive grounds" under which an arbitration award may be vacated, plain and simple, and that neither private parties *nor the courts* may expand those statutory grounds. *Id.* ("[T]he statutory text gives us no business to expand the statutory grounds."). *Hall Street* thereby abrogated all of the federal common law grounds for vacatur.

C. The Circuits Are Sharply Divided As To The Validity Of "Manifest Disregard" As A Ground For Vacatur After *Hall Street*.

Although *Hall Street* should have laid to rest any suggestion that "manifest disregard of the law" is a valid ground for vacatur, it has not. Rather, a number of courts, including the Ninth Circuit in the decision below, have seized upon language in *Hall Street* to breathe new life into the doctrine of "manifest disregard." A sharp divide now exists between the circuits

as to whether and to what extent "manifest disregard of the law" remains a valid ground for vacatur in cases governed by the FAA.

1. The Sixth Circuit Continues To Recognize "Manifest Disregard" As A Valid Non-Statutory Ground For Vacatur.

The Sixth Circuit has held that "manifest disregard of the law" survives *Hall Street* as a non-statutory ground for vacatur. In *Coffee Beanery, supra,* the Sixth Circuit considered and rejected the suggestion that *Hall Street* abrogated this federal common law doctrine. The Sixth Circuit read *Hall Street* as limiting only the right of parties, and not of the courts, to expand the scope of judicial review beyond the grounds specified in the FAA. 300 Fed. Appx. at 419; *see id.* at 418 (describing the statutory grounds for vacatur as "almost exclusive[ ]"). Citing *Hall Street*'s discussion of *Wilko*, which the Sixth Circuit believed demonstrated a "hesitation to reject the 'manifest disregard' doctrine," the Sixth Circuit decided to "follow its well-established precedent . . . and continue to employ the 'manifest disregard' standard." *Id.* at 419. The Sixth Circuit proceeded to vacate an award under the common law doctrine of "manifest disregard." *Id.* at 421.[3]

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[3] Again in *Dealer Computer Services, Inc. v. Dub Herring Ford*, 547 F.3d 558 (6th Cir. 2008), the Sixth Circuit explained

(Continued on following page)

2. The Fifth Circuit Has Abrogated "Manifest Disregard" As A Ground For Vacatur.

The Fifth Circuit reached precisely the opposite holding in *Citigroup Global Markets, supra*, deciding that "manifest disregard of the law" has been abolished as a non-statutory ground for vacatur. 562 F.3d at 358. The Fifth Circuit considered at length the Sixth Circuit's *Coffee Beanery* decision, as well as the decisions of other circuits wrestling with the doctrine of "manifest disregard" in the wake of *Hall Street*, and determined that the doctrine has no continuing vitality:

> In the light of the Supreme Court's clear language that, under the FAA, the statutory provisions are the exclusive grounds for vacatur, manifest disregard of the law as an independent, nonstatutory ground for setting aside an award must be abandoned and rejected. Indeed, the term itself, as a term of legal art, is no longer useful in actions to vacate arbitration awards. *Hall Street* made it plain that the statutory language means what it says. . . . Thus from this point forward, arbitration awards under the FAA may

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that, in addition to the statutory grounds for vacatur, "[a] court may also vacate an award on non-statutory grounds if the arbitration panel demonstrates a 'manifest disregard of the law.'" *Id.* at 561 n.2 (quoting *First Options of Chicago, Inc. v. Kaplan*, 514 U.S. 938, 942, 115 S. Ct. 1920, 131 L. Ed. 2d 985 (1995)). The Sixth Circuit included a "*But see*" citation to *Hall Street*. *Id.*

be vacated only for the reasons provided in § 10.

Id.

3. The Ninth Circuit Has Grafted The Common Law Doctrine Of "Manifest Disregard" Onto The Statutory Grounds For Vacatur.

The Ninth Circuit took a third approach in the case below, neither reaffirming "manifest disregard of the law" as a non-statutory ground for vacatur nor abrogating the doctrine in light of *Hall Street*. In its first decision below, the Ninth Circuit held that the arbitrator's good faith but, in its view, erroneous application of California law provided a ground for vacatur under the common law doctrine of "manifest disregard." App. C at 58-67. This Court vacated that first judgment and remanded for further consideration in light of *Hall Street*. App. B. On remand, the Ninth Circuit did not heed this Court's instructions, but instead reinstated the prior decision practically verbatim, with only a passing discussion of *Hall Street*. App. A at 9 ("Finally, addressing the issue raised by the Supreme Court's remand, we conclude that *Hall Street Associates* did not undermine the manifest disregard ground for vacatur, as understood in this circuit to be a violation of § 10(a)(4) of the Federal Arbitration Act, and that the arbitrator manifestly disregarded the law."); *see id.* at 24-25. In so doing, the Ninth Circuit heedlessly reclothed "manifest disregard of the law" as a statutory ground

for vacatur notwithstanding the fact that the Ninth Circuit (like every other Court of Appeals) had for more than a quarter century recognized that the doctrine is firmly rooted in federal common law.[4]

4. The Decisions Of The First And Second Circuits Evidence Confusion As To The Continuing Vitality Of "Manifest Disregard" After *Hall Street*.

The decisions of the two other circuits that have addressed the validity of "manifest disregard of the law" as a ground for vacatur after *Hall Street* – the

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[4] *See, e.g.*, *Collins v. D.R. Horton, Inc.*, 505 F.3d 874, 879 (9th Cir. 2007) ("Although § 10 does not sanction judicial review of the merits of arbitration awards, we have adopted a narrow 'manifest disregard of the law' exception under which a procedurally proper arbitration award may be vacated."); *Carter v. Health Net of Cal., Inc.*, 374 F.3d 830, 837 (9th Cir. 2004) ("manifest disregard" is a "federal common law doctrine for vacatur"); *Coutee v. Barington Capital Group, L.P.*, 336 F.3d 1128, 1132 (9th Cir. 2003) (distinguishing "manifest disregard" from the FAA grounds for vacatur); *G.C. & K.B. Invs., Inc. v. Wilson*, 326 F.3d 1096, 1106 (9th Cir. 2003) ("manifest disregard" is a "judicially-developed ground[ ] for vacating an award"); *Sheet Metal Workers Int'l Ass'n Local Union # 420 v. Kinney Air Conditioning Co.*, 756 F.2d 742, 746 (9th Cir. 1985) ("Independent of section 10 of the Act, a district court may vacate an arbitral award which exhibits manifest disregard of the law."); *Coast Trading Co., Inc. v. Pacific Molasses Co.*, 681 F.2d 1195, 1197 n.2 (9th Cir. 1982) ("manifest disregard" is a "non-statutory addition to the power of courts to vacate or modify arbitrator's awards").

First and Second Circuits – further evidence that burgeoning confusion regarding the permissible scope of judicial review of arbitration awards. The First Circuit was the first circuit to comment upon the validity of "manifest disregard of the law" after *Hall Street*. In *Ramos-Santiago, supra*, the First Circuit stated in dictum and with little discussion that, after *Hall Street*, "manifest disregard of the law is not a valid ground for vacating or modifying an arbitral award in cases brought under the Federal Arbitration Act." 524 F.3d at 124 n.3.

In at least two other cases decided after *Hall Street*, however, the First Circuit has specifically reaffirmed "manifest disregard of the law" as a valid non-statutory ground for vacatur. In *Zayas, supra*, the First Circuit described "two well-delineated traunches" for review of arbitration awards. 524 F.3d at 68. The first traunch, which encompasses the grounds for vacatur enumerated in 9 U.S.C. § 10(a), authorizes review for "certain specific types of breakdowns" in the arbitration process. *Id.* The second traunch, which exists outside of the FAA and is "anchored in federal common law," provides a "small window of opportunity for vacation of arbitral awards that are 'in manifest disregard of the law.'" *Id. Zayas* reaffirmed, without any discussion of *Hall Street*, that an award may be vacated under either the statutory or the common law traunch. *Id.* Similarly, in *Kashner Davidson Securities Corp. v. Mscisz*, 531 F.3d 68 (1st Cir. 2008), the First Circuit distinguished the statutory grounds for vacatur in 9 U.S.C. § 10(a) from the

"common law grounds" for vacatur, the latter of which have been subsumed "into a general evaluation of whether a panel has acted in 'manifest disregard of the law.'" *Id.* at 74. *Kashner Davidson* then proceeded to analyze the subject award under the "common law" of "manifest disregard of the law," again without any discussion of *Hall Street*. *Id.*

The Second Circuit has recognized the continuing vitality of "manifest disregard of the law" in several decisions after *Hall Street*. It has been inconsistent, however, in its treatment of the doctrine as a statutory or common law ground for vacatur. In *Stolt-Nielsen, supra*, the Second Circuit recognized that *Hall Street*'s holding was in direct conflict with a long line of Second Circuit cases applying "manifest disregard of the law" as a non-statutory ground for vacatur. 548 F.3d at 94. *Stolt-Nielsen* purported to resolve this conflict by "reconceptualiz[ing]" the doctrine "as a judicial gloss on the specific grounds for vacatur enumerated in section 10 of the FAA." *Id.* That "reconceptualization" has not stuck, however, and the Second Circuit has subsequently reaffirmed "manifest disregard of the law" as a "non-statutory ground" for vacatur. *Vaughn*, 2009 WL 690024, at *1; *see also Rich v. Spartis*, 307 Fed. Appx. 475, 478 (2d Cir. 2008) ("Although manifest disregard of applicable law is not included as a statutory basis to vacate an award under § 10(a) of the Federal Arbitration Act, we have recognized its validity. . . .").

D. This Court Should Resolve The Conflict Among The Circuits And Hold That "Manifest Disregard" Is Not A Valid Ground For Vacatur.

This conflict among the circuits will not resolve itself. Although the state of the law in the First and Second Circuits remains hopelessly confused, the Fifth, Sixth, and Ninth Circuits are locked into their respective positions. The Sixth Circuit in *Coffee Beanery* held that it was following "well-established precedent" in vacating an arbitration award on the non-statutory ground of "manifest disregard of the law" and denied rehearing *en banc*. 300 Fed. Appx. at 419. The Fifth Circuit squarely held in *Citigroup* that the doctrine of "manifest disregard" must be abandoned and rejected in light of *Hall Street*. 562 F.3d at 358. The Ninth Circuit in its decision below held that a prior *en banc* decision required it to reimagine "manifest disregard" as a statutory ground for vacatur. App. A at 24-25. Until this Court intervenes, there will be no uniform national standard for judicial review of arbitration awards.

The primary goal of the FAA is to ensure recognition and enforcement of commercial arbitration agreements and to unify the standards by which agreements to arbitrate are observed and arbitral awards are enforced. Whether or not "manifest disregard of the law" is ultimately determined to constitute a valid statutory or common law ground for vacatur, it is critical that the standards for judicial review of arbitration awards be uniform from one

circuit to the next. Congress did not intend for an arbitration award that must be confirmed in one part of the country to be subject to vacatur in another, such that the finality of an arbitration award turns on the fortuity of where an arbitrable dispute happens to arise. Thus, regardless of *how* the conflict among the circuits is resolved, it should be resolved.

This Court's *Hall Street* decision and the policies underlying the FAA dictate that the doctrine of "manifest disregard of the law" be abrogated. Sections 9 through 11 of the FAA "substantiat[e] a national policy favoring arbitration with just the limited review needed to maintain arbitration's essential virtue of resolving disputes straightaway." *Hall Street*, 128 S. Ct. at 1405. The § 10 grounds for vacatur are facially limited to procedural aberrations that are "egregious departures from the parties' agreed-upon arbitration," such as where the award is procured by "fraud" and where the arbitrators are "corrupt[ ]," refuse to hear pertinent evidence, or rule on issues that have not been submitted to arbitration. *Id.* at 1404. The § 10 grounds are carefully delineated, and there is no "catch-all" that allows for review of an award on the merits – regardless of whether the review is for plain, "clear," or even "manifest" legal error. Indeed, the primary objectives of arbitration – swift, inexpensive, and conclusive resolution of disputes – are undermined by even narrow review of the merits of an arbitration award. And, as the Seventh Circuit has aptly observed, review for "manifest" error can "be even more complex than a

search for simple error – for how blatant a legal mistake must be to count as 'clear' or 'manifest' error lacks any straightforward answer." *George Watts & Son, Inc. v. Tiffany & Co.*, 248 F.3d 577, 579 (7th Cir. 2001).

The doctrine of "manifest disregard" is not saved by grafting the doctrine onto the statutory grounds for vacatur. The Second and Ninth Circuits' efforts to "reconceptualize" the doctrine in this manner rest on a misreading of the following passage in *Hall Street*:

> Maybe the term "manifest disregard" was meant to name a new ground for review, but maybe it merely referred to the § 10 grounds collectively, rather than adding to them. Or, as some courts have thought, "manifest disregard" may have been shorthand for § 10(a)(3) or § 10(a)(4), the subsections authorizing vacatur when the arbitrators were "guilty of misconduct" or "exceeded their powers." We, when speaking as a Court, have merely taken the *Wilko* language as we found it, without embellishment, and now that its meaning is implicated, we see no reason to accord it the significance that Hall Street urges.

128 S. Ct. at 1404. The Second and Ninth Circuits have regarded this passage as instructions for how to smuggle the common law doctrine of "manifest disregard" into the text of the FAA. However, it is one thing to suggest that *the phrase* "manifest disregard"

may have been used in *Wilko* as shorthand for one or more of the statutory grounds for vacatur.[5] It is quite another to hold, as the Ninth Circuit did below, that *the doctrine* of "manifest disregard," as it has been developed in federal common law in the half century after *Wilko*, fits within and adds substance to the statutory grounds for vacatur. *Hall Street* offers no support for that position. To the contrary, by limiting courts to a strict application of the statutory grounds for vacatur, *Hall Street* requires that every procedurally proper arbitration award be confirmed.

E. This Case Presents The Best Opportunity To Resolve The Conflict Among The Circuits.

This case presents the best opportunity for this Court to resolve the conflict among the circuits and determine whether "manifest disregard of the law" is a valid ground for vacatur of an arbitration award. This Court has already vacated the Ninth Circuit's original judgment in this action and remanded for further consideration in light of *Hall Street*. The Ninth Circuit did not heed this Court's instructions,

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[5] In other words, an award is in "manifest disregard of the law" if it is procured by corruption, fraud, or undue means; where there was evident partiality or corruption in the arbitrators; where the arbitration hearing itself was not full and fair; or where the arbitrator rules on issues that were not submitted for arbitration or renders an award that is too interim or indefinite to enforce. *See* 9 U.S.C. § 10(a).

but instead reinstated its prior decision that is so clearly at odds with *Hall Street*. It is unlikely that a better opportunity to impress upon the lower courts that *Hall Street* means what it says, and to thereby ensure uniformity in the standard for review of arbitration awards, will soon arise.

Although petitions for a writ of certiorari are pending before this Court in *Stolt-Nielsen* and *Coffee Beanery*, only the present case squarely presents the issue of whether "manifest disregard of the law" has any vitality after *Hall Street*. The petition in *Stolt-Nielsen*, No. 08-1198 (Mar. 26, 2009), seeks review of an unrelated question regarding class arbitration. The petition in *Coffee Beanery*, No. 08-1396 (May 11, 2009), does present the question of whether "manifest disregard of the law" is a valid ground for vacating an arbitration award under the FAA. *Coffee Beanery*, however, holds that "manifest disregard of the law" remains a valid *extra-statutory* ground for vacating an arbitration award, such that the question framed by that petition is broader than the Sixth Circuit's holding below. 300 Fed. Appx. at 419. The Ninth Circuit, by contrast, sought to circumvent *Hall Street* in the decision below by grafting the judge-made doctrine of "manifest disregard of the law" onto the statutory text. Unlike *Coffee Beanery*, this case squarely presents the question of whether the FAA allows a reviewing court to vacate an arbitration award for "manifest" legal error or instead requires that every procedurally proper arbitration award be confirmed.

Moreover, this case thoroughly demonstrates how even a limited merits-based review of an arbitration award for "manifest disregard of the law" opens the door for a results driven court to substitute its judgment for that of the arbitrator. The arbitrator here did not exceed his authority, but instead decided the precise issue that was submitted for arbitration – namely, the enforceability of the Agreement's in-term covenant against competition under CBPC § 16600. As the District Court acknowledged in confirming the award, the arbitrator's ruling finds ample support in the case law – including decisions of the California state courts, several United States District Courts, and even another panel of the Ninth Circuit. The only basis for the Ninth Circuit's determination that the arbitrator had "manifestly disregarded the law" was its view that the arbitrator's reading of *Dayton Time Lock*, an intermediate state appellate court decision from thirty years earlier, was "fundamentally incorrect." App. A at 31. Even if the arbitrator was "fundamentally incorrect" in his reading of *Dayton Time Lock* (and he was not), that is not an instance of "fraud," "corruption," "misbehavior," or "exceeding . . . powers." 9 U.S.C. § 10. The ease with which the Ninth Circuit nevertheless vacated the award simply by labeling it "manifest disregard" demonstrates the clear threat that is posed to the finality of arbitration awards until that doctrine has been conclusively abolished.

II. The Ninth Circuit's Vacatur Of An Award Based On An Arbitrator's Good Faith But, In Its View, Erroneous Interpretation Of State Law Conflicts With *Hall Street* And The Law Of Every Other Circuit.

Even if *Hall Street* did not abrogate "manifest disregard of the law" or any of the other common law grounds for vacatur, the decision below still grossly exceeds the permissible scope of judicial review of arbitration awards. The Respondents have never argued, and the Ninth Circuit did not suggest (much less find), that the arbitrator had acted in anything other than the utmost good faith. There is no contention that the arbitrator was partial or corrupt, or that he was guilty of any misbehavior. Nor is there any suggestion that he deliberately defied the law. Instead, the Ninth Circuit determined only that the arbitrator was "fundamentally incorrect" in his reading of the California Court of Appeal decision in *Dayton Time Lock*, and it vacated the award on that basis. The Ninth Circuit's holding that a *good faith* but erroneous interpretation of state law supports vacatur on any ground, however labeled, conflicts with *Hall Street* and the law of every other circuit.

Hall Street expressly limits vacatur under the FAA – and thus, necessarily, the scope of "manifest disregard" to the extent it survives at all – to instances of "outrageous" and "extreme arbitral conduct" that is tantamount to bad faith. 128 S. Ct. at 1404. As this Court explained in *Hall Street*:

> Sections 10 and 11 . . . address *egregious departures* from the parties' agreed-upon arbitration: "corruption," "fraud," "evident partiality," "misconduct," "misbehavior," "exceed[ing] . . . powers," "evident material miscalculation," "evident material mistake," "award[s] upon a matter not submitted"; the only ground with any softer focus is "imperfect[ions]," and a court may correct those only if they go to "[a] matter of form not affecting the merits."

Id. (emphasis added). That a finding of willful misconduct is required for vacatur is confirmed by the legislative history of the FAA, *see id.* at 1406 n.7, as well as by a leading law review article from the time of the FAA's enactment, which explained: "The courts are bound to accept and enforce the award of the arbitrator unless there is in it a defect so inherently vicious that, as a matter of common morality, it ought not be enforced." Julius Henry Cohen & Kenneth Dayton, *The New Federal Arbitration Law*, 12 Va. L. Rev. 265, 272-73 (1926). Thus, a reviewing court's belief that the arbitrator's legal analysis is incorrect, or even "fundamentally incorrect," does not allow for vacatur. Rather, a finding of willful misconduct by the arbitrator is plainly required before an otherwise procedurally proper arbitration award may be vacated.

Every other Court of Appeals has carefully distinguished between a good faith error of law, which is never a basis for vacating an arbitration award, and deliberate defiance of the law. As the Eighth Circuit

explained in *Lincoln Nat'l Life Ins. Co. v. Payne*, 374 F.3d 672 (8th Cir. 2004):

> Manifest disregard requires something more than a mere error of law. If an arbitrator, for example, stated the law, acknowledged that he was rendering a decision contrary to law, and said that he was doing so because he thought the law unfair, that would be an instance of 'manifest disregard.' . . . To require anything less would threaten to subvert the arbitral process.

Id. at 674; *see, e.g., Advest*, 914 F.2d at 10 ("'[D]isregard' implies that the arbitrators appreciated the existence of a governing legal rule but *willfully* decided not to apply it.") (emphasis added); *Butler Mfg. Co. v. United Steelworkers of Am.*, 336 F.3d 629, 636 (7th Cir. 2003) ("[A]n arbitral decision is in manifest disregard of the law only when the arbitrator's award actually orders the parties to violate the law. That the arbitrator in this case may have misunderstood the [governing statute] is simply not relevant.") (internal citation omitted); *Bowen v. Amoco Pipeline Co.*, 254 F.3d 925, 932 (10th Cir. 2001) ("Requiring more than error or misunderstanding of the law, a finding of manifest disregard means the record will show the arbitrators knew the law and explicitly disregarded it.") (internal citation omitted); *Aldred v. Avis Rent-A-Car*, 2007 WL 2110720, at *2 (11th Cir. July 24, 2007) ("An arbitrator manifestly disregards the law if he was conscious of the law and

deliberately ignored it; merely misinterpreting, misstating, or misapplying the law does not suffice.").

The Ninth Circuit's decision below dramatically alters the standard for review of an arbitration award. Whether or not the arbitrator's understanding of *Dayton Time Lock* was "fundamentally incorrect," as the Ninth Circuit determined, it is abundantly clear that the arbitrator neither ignored nor acted in deliberate defiance of California law. Rather, the arbitrator engaged in a lengthy and deliberate analysis of CBPC § 16600 and the cases applying the statute and determined in good faith that *Dayton Time Lock* does not stand for the proposition that had been urged by the Respondents and was ultimately endorsed by the Ninth Circuit below. Whether the arbitrator was correct, incorrect, or even "fundamentally incorrect" in this regard lies far beyond the permissible scope of judicial review under the FAA.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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APPENDIX A

FOR PUBLICATION

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

COMEDY CLUB, INC., a Louisiana corporation; AL COPELAND INVESTMENTS, INC., a Louisiana corporation, *Plaintiffs-Appellants*, v. IMPROV WEST ASSOCIATES, a California Limited Partnership; CALIFORNIA COMEDY, INC., a California corporation, *Defendants-Appellees.*	No. 05-55739 D.C. No. CV-03-08134-WMB
COMEDY CLUB, INC., a Louisiana corporation; AL COPELAND INVESTMENTS, INC., a Louisiana corporation, *Plaintiffs-Appellants*, v. IMPROV WEST ASSOCIATES, a California Limited Partnership; CALIFORNIA COMEDY, INC., a California corporation, *Defendants-Appellees.*	No. 05-56100 D.C. No. CV-03-08134-WMB OPINION

On Remand From The
United States Supreme Court

Filed January 29, 2009

Before: Jerome Farris and Ronald M. Gould, Circuit Judges, and Kevin Thomas Duffy,* District Judge.

Opinion by Judge Gould

COUNSEL

Karina B. Sterman, Kelly O. Scott, Ervin, Cohen & Jessup, LLP, Beverly Hills, California, for appellants Comedy Club, Inc. and Al Copeland Investments, Inc.

Robert N. Klieger, Irell & Manella LLP, Los Angeles, California, for appellees Improv West Associates and California Comedy, Inc.

OPINION

GOULD, Circuit Judge:

On June 13, 1999, Comedy Club, Inc. and Al Copeland Investments, Inc. (collectively "CCI") executed a Trademark License Agreement ("Trademark Agreement") with Improv West Associates ("Improv West") that granted CCI an exclusive nationwide license to use Improv West's trademarks. A few years later, CCI

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* The Honorable Kevin Thomas Duffy, Senior United States District Judge for the Southern District of New York, sitting by designation.

breached the agreement and sought to protect its interests in the trademarks in federal district court by filing a declaratory judgment action. After a complex procedural history, the parties were left with an arbitration award and two district court orders, one order compelling the parties to arbitrate, and another order confirming the arbitration award. CCI appealed both district court orders. We have jurisdiction under 28 U.S.C. § 1291.

In a prior opinion, published at 514 F.3d 833, we determined that we lacked jurisdiction to review the district court's order compelling arbitration. We affirmed in part and vacated in part the district court's order confirming the arbitration award. The Supreme Court vacated that opinion and remanded this case to us for reconsideration in light of *Hall Street Associates L.L.C. v. Mattel, Inc.*, 128 S. Ct. 1396 (2008). We determine that *Hall Street Associates* does not undermine our prior precedent, *Kyocera Corp. v. Prudential-Bache T. Servs.*, 341 F.3d 987 (9th Cir. 2003) (en banc). As a result, in this circuit, an arbitrator's manifest disregard of the law remains a valid ground for vacatur of an arbitration award under § 10(a)(4) of the Federal Arbitration Act. Therefore, we adhere to the outcome in our prior decision.

I

Improv West is the founder of the Improv Comedy Club and the creator and owner of the "Improv"

and "Improvisation" trademarks ("Improv marks"). CCI owns and operates restaurants and comedy clubs nationwide. On June 13, 1999, CCI and Improv West entered a Trademark Agreement[1] that provided, *inter alia*: (1) that Improv West granted CCI an exclusive nationwide license to use the Improv marks in connection with the opening of new comedy clubs; (2) that, according to a development schedule, CCI was to open four Improv clubs a year in 2001 through 2003;[2] and (3) that CCI was prohibited from opening any non-Improv comedy clubs during the term of the Trademark Agreement.[3] The Trademark Agreement also had an arbitration clause:

> All disputes relating to or arising under this Agreement or the Asset Purchase Agreement shall be resolved by arbitration in Los Angeles, California in accordance with the commercial arbitration rules of the American Arbitration

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[1] Also on June 13, 1999, in a separate Asset Purchase Agreement, CCI purchased the Melrose Improv Club from Improv West. The Melrose Improv Club is located in Los Angeles, California.

[2] The original § 12.a. of the Trademark Agreement called for CCI to open and operate at least three Improv clubs by 2001, and two each year thereafter so that CCI would own and operate at least seven Improv clubs by 2003. CCI and Improv West amended § 12.a. on October 19, 1999, creating the schedule of four Improv clubs a year in 2001 through 2003.

[3] Section 9.j. of the Trademark Agreement stated: "Licensee shall not own or operate, and Licensee shall ensure that none of its Affiliates shall own or operate any bar, restaurant, nightclub, or other facility which presents live stand-up or sketch comedy performances or live improvisational performances, other than the Melrose Improv or a Club, or Second City."

> Association. In any such arbitration, the parties shall be entitled to discovery in the same manner as if the dispute was being litigated in Los Angeles Superior Court. Notwithstanding this agreement to arbitrate, the parties, in addition to arbitration, shall be entitled to pursue equitable remedies and agree that the state and federal courts shall have exclusive jurisdiction for such purpose and for the purpose of compelling arbitration and/or enforcing any arbitration award. The parties agree to submit to the jurisdiction of such courts and agree that service of process in any such action may be made by certified mail. The prevailing party in any arbitration or action to enforce this Agreement or the Asset Purchase Agreement shall be entitled to its costs, including reasonable attorneys fees.

CCI concedes that it failed to open eight Improv clubs by 2002,[4] and that it was in default of amended § 12.a. of the Trademark Agreement. Consistent with Improv West's sole remedy, as stated in § 13.b.,[5]

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[4] In CCI's original complaint, CCI claims that it opened or obtained an interest in at least seven Improv clubs, not including the Melrose Improv Club.

[5] Section 13.b. of the Trademark Agreement provided Improv West's sole remedy in the event CCI defaulted on the § 12.a. development schedule. In pertinent part, § 13.b. stated:

> Notwithstanding the above enumerated remedies, in the event [CCI] fails to fulfill the schedule set forth in section 12.a., [Improv West's] sole remedy shall be as follows. Upon notice to [CCI], [CCI] shall lose the

(Continued on following page)

Improv West sent CCI a letter asserting that CCI was in default of the Trademark Agreement, withdrawing CCI's license to use the Improv marks and rights to open more Improv clubs, and informing CCI that Improv West intended to begin opening its own Improv clubs.

In response to Improv West's letter, CCI filed a complaint in federal district court seeking declaratory relief. CCI's complaint sought a declaration that the covenant that CCI could not open any non-Improv comedy clubs was void under California Business and Professions Code ("CBPC") § 16600, and that CCI's failure to meet the development schedule did not revoke CCI's license to the Improv marks or right to open Improv clubs. Improv West then filed a demand for arbitration seeking damages.[6]

On August 2, 2004, the district court ordered the parties to arbitrate their dispute. CCI did not appeal that order until May 16, 2005.

> right, power, and License (i) to use the Trademarks in connection with any Clubs which are not, as of the date of such failure, under construction or open for business and operated by [CCI], an Affiliate of [CCI] or other Operator and (ii) to sub-license Third Parties use of the Trademarks in connection with any new Clubs.

[6] In a further response, CCI amended its complaint seeking to enjoin Improv West from opening, or authorizing third parties to open, any Improv clubs, and asking for disgorgement of Improv West's profits from any such action.

On February 28, 2005, the arbitrator entered a Partial Final Arbitration Award that stated: (1) that CCI defaulted on the Trademark Agreement by failing to adhere to the development schedule listed in amended § 12.a.; (2) that CCI forfeited its rights to open Improv clubs and its use of the Improv marks license in connection with any clubs not open or under construction as of October 15, 2002; (3) that Improv West could open or license to third parties new Improv clubs; (4) that § 9.j. of the Trademark Agreement was "a valid and enforceable in-term covenant not to compete" and remained valid "for the remaining term of the Agreement"[7]; (5) that CCI and its "Affiliates"[8] were enjoined from opening or operating any other comedy clubs other than those open or under construction as of October 15, 2002 for the duration of the Trademark Agreement; (6) that neither CCI nor its Affiliates could change the name on any of its current clubs; and (7) that Improv West was

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[7] Unless the parties agree to terminate the Trademark Agreement earlier, by its own terms, the Trademark Agreement does not end until 2019.

[8] Section 1 of the Trademark Agreement stated, in relevant part, that "'a Person'" is "any natural person, or any corporation, partnership, joint venture, limited liability company, business association, trust . . . or other entity," and that the term "Affiliate" means and includes "any members of such Person's immediate family, or the member of the immediate family of any direct or indirect shareholder of such Person. . . . Further, the members of the immediate family of any Person shall include all collateral relatives of such Person having a common linear ancestor with such Person, and the spouse or any former spouse of such Person or any of such collateral relatives of such spouse.'"

entitled to attorneys fees and costs. On April 14, 2005, the district court confirmed the Partial Award. CCI timely appealed, tendering to us the issues addressed in this opinion.[9]

In an opinion filed on September 7, 2007 and amended on January 23, 2008, we held that we did not have jurisdiction to review the district court's order compelling the parties to arbitrate; that the arbitrator did not exceed his authority by arbitrating the equitable claims; that the arbitrator did exceed his authority by issuing permanent injunctions that enjoined relatives who were not parties to the agreement; that the arbitrator's award was not completely irrational; and that the arbitrator's enforcement of the covenant not to compete was a manifest disregard for the law. The Supreme Court granted a petition for a writ of certiorari, vacated our prior opinion, and remanded this case to us to reconsider our decision in light of *Hall Street Associates v. Mattel.*

Both parties agree that this remand only affects the portion of the prior opinion in which we found the

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[9] Although all the issues in this appeal concern the arbitrator's decision in the Partial Final Arbitration Award entered on February 28, 2005, the arbitrator issued a second arbitral award, the Final Arbitration Award, which was decided on May 20, 2005. The district court confirmed that award on June 21, 2005, and entered judgment on August 29, 2005. CCI timely appealed the district court's order confirming the Final Arbitration Award on July 20, 2005, but raised no issues on appeal concerning that award. We consolidated the two cases for appeal purposes.

arbitrator acted with a "manifest disregard of the law." Therefore, we continue to hold that we do not have jurisdiction over the district court's order compelling arbitration. We also determine that the arbitrator did not exceed his authority when he arbitrated the equitable claims, but that he exceeded his authority regarding the permanent injunction that enjoined non-parties to the agreement. We also decide that the arbitrator's award was not completely irrational. Finally, addressing the issue raised by the Supreme Court's remand, we conclude that *Hall Street Associates* did not undermine the manifest disregard of law ground for vacatur, as understood in this circuit to be a violation of § 10(a)(4) of the Federal Arbitration Act, and that the arbitrator manifestly disregarded the law.

II

CCI first argues that the district court erred when it issued its order compelling the parties to arbitrate. Improv West in turn contends that we lack jurisdiction over this issue because CCI's appeal of the district court's order compelling arbitration is untimely.

The district court's order compelling the parties to arbitrate dismissed CCI's claims when it sent the parties to arbitration. Because the district court's order dismissed CCI's claims, it is a final order. *See Green Tree Fin. Corp. v. Randolph*, 531 U.S. 79, 86 (2000) (holding that a district court's order dismissing

the plaintiffs claims and compelling arbitration was a final decision because the order "end[ed] the litigation on the merits and le[ft] nothing more for the court to do but execute the judgment" (internal quotation marks omitted)); *see also* 9 U.S.C. § 16(a)(3) (2006) ("An appeal may be taken from . . . a final decision with respect to an arbitration that is subject to this title."); 9 U.S.C. § 16(a)(3) prac. cmt. (instructing that subdivision (a)(3) makes appealable a district court's determination compelling arbitration that is a final decision); *Bushley v. Credit Suisse First Boston*, 360 F.3d 1149, 1153 n.1 (9th Cir. 2004) (adopting the principle that "a dismissal renders an order appealable under § 16(a)(3)" (citation omitted)).

28 U.S.C. § 2107(a) and Federal Rule of Appellate Procedure 4(a)(1) require that a notice of appeal be filed in a civil case "within 30 days after the judgment or order appealed from is entered." Fed. R. App. P. 4(a)(1)(A). Because the district court did not enter judgment on the order to compel arbitration, CCI had 180 days to appeal the order. *See* Fed. R. App. P. 4(a)(7)(A)(ii); *see also Bowles v. Russell*, ___ U.S. ___, 127 S. Ct. 2360, 2363 (2007) (stating that "the taking of an appeal within the prescribed time is mandatory and jurisdictional" (internal quotation marks omitted)).

CCI filed its first notice of appeal of the district court's order compelling arbitration on May 16, 2005, 287 days after the order was entered on August 2, 2004. This is well beyond the 180 days allowed by Federal Rule of Appellate Procedure 4(a)(7)(A)(ii).

CCI's appeal of the district court's order compelling arbitration is untimely, and we lack jurisdiction to hear the appeal of that issue.

III

We next consider CCI's contention that the district court erred by confirming the arbitration award. We review a district court's confirmation of an arbitration award de novo. *See First Options of Chi., Inc. v. Kaplan,* 514 U.S. 938, 947-48 (1995). CCI presents four arguments: (1) that the arbitrator lacked authority to arbitrate the equitable claims; (2) that the arbitrator exceeded the scope of his authority by issuing two permanent injunctions; (3) that the arbitrator's award is irrational; and (4) that the arbitrator's award violates CBPC § 16600. We address each argument in turn.

A

CCI submits that the arbitrator lacked authority to arbitrate because the arbitration clause in the Trademark Agreement grants state and federal courts an "exclusive" jurisdiction over equitable claims. We review the validity and scope of an arbitration clause de novo. *See Moore v. Local 569 of Int'l Bhd. of Elec. Workers,* 53 F.3d 1054, 1055-56 (9th Cir. 1995).

It is well established "that where the contract contains an arbitration clause, there is a presumption of arbitrability." *AT & T Techs., Inc. v. Commc'ns*

Workers of Am., 475 U.S. 643, 650 (1986). "[A]n order to arbitrate the particular grievance should not be denied unless it may be said with positive assurance that the arbitration clause is not susceptible of an interpretation that covers the asserted dispute. Doubts should be resolved in favor of coverage." *Id.; see also Three Valleys Mun. Water Dist. v. E.F. Hutton & Co.*, 925 F.2d 1136, 1139 (9th Cir. 1991) ("Under the Federal Arbitration Act . . . any doubts concerning the scope of arbitrable issues should be resolved in favor of arbitration. . . ." (internal quotation marks and citation omitted)).

It is also well established that "[w]hen deciding whether the parties agreed to arbitrate a certain matter . . . courts generally . . . should apply ordinary state-law principles that govern the formation of contracts." *First Options*, 514 U.S. at 944. Only disputes "that the parties have agreed to submit to arbitration" should be arbitrated. *Id.* at 943; *see also Republic of Nicar. v. Standard Fruit Co.*, 937 F.2d 469, 478 (9th Cir. 1991) (stating that "[t]he scope of the [arbitration] clause must . . . be interpreted liberally").

Under California contract law, "if the language [of a contract] is clear and explicit, and does not involve an absurdity" the language must govern the contract's interpretation. Cal. Civ. Code § 1638. Moreover, when a contract is written, "the intention of the parties is to be ascertained from the writing alone, if possible." Cal. Civ. Code § 1639. "[I]f reasonably practicable" a contract must be interpreted as a whole, "so

as to give effect to every part, . . . each clause helping to interpret the other." Cal. Civ. Code. § 1641; *see also In re Affordable Hous. Dev. Corp.*, 175 B.R. 324, 329 (B.A.P. 9th Cir. 1994) ("California law provides that one phrase of a contract should not be interpreted so as to render another phrase of the contract meaningless."). However, "[i]f a contract is capable of two different reasonable interpretations, the contract is ambiguous," *Oceanside 84, Ltd. v. Fid. Fed. Bank,* 56 Cal. App. 4th 1441, 1448 (1997), and under the federal presumption in favor of arbitration, an arbitrator would have jurisdiction to arbitrate claims. *See AT & T Techs.*, 475 U.S. at 650; *Three Valleys,* 925 F.2d at 1139.

Applying these principles, we conclude that the Trademark Agreement's arbitration clause grants the arbitrator authority over "all disputes" arising from the Trademark Agreement. There are three relevant clauses in the arbitration agreement: (1) "[a]ll disputes relating to or arising under this Agreement . . . shall be resolved by arbitration"; (2) "[n]otwithstanding this agreement to arbitrate, the parties, in addition to arbitration, shall be entitled to pursue equitable remedies and agree that the state and federal courts shall have exclusive jurisdiction for such purpose and for the purpose of compelling arbitration and/or enforcing any arbitration award"; and (3) "[t]he prevailing party in any arbitration or action to enforce this Agreement . . . shall be entitled to its costs, including reasonable attorneys fees."

CCI contends that clause two is explicit that only state and federal courts, and not an arbitrator, have jurisdiction over equitable claims. Improv West counters that the second clause only carved out equitable claims "in aid of arbitration" to maintain the status quo between the parties pending arbitration, and that the second clause did not "supplant the arbitrator's authority" to decide all disputes under the Trademark Agreement.

A natural reading of clause two lends plausibility to Improv West's theory. The language "in addition to arbitration" in clause two suggests that arbitration still applies to all disputes, but that in addition, the parties are "entitled to pursue equitable remedies" before courts. If the parties intended to carve out an exception to arbitration for all equitable claims, they could have done so without the language "in addition to arbitration." Because the parties included this language, it is plausible and a permissible contract interpretation that the equitable claims exception in clause two was intended to apply only to claims designed to maintain the status quo between the parties. Stated another way, it was a rational interpretation of the agreement to say that the arbitrator could decide both equitable and legal claims and that the provision for court jurisdiction on equitable matters was ancillary to the arbitration. Moreover, the Federal Arbitration Act, 9 U.S.C. § 3, provides a court with the ability to stay "trial of [an] action until such arbitration has been had," but it does not give a court the authority to issue equitable

remedies, such as a temporary injunction, to maintain the status quo between the parties. Thus, it makes sense that if the parties wanted to give themselves the ability to seek temporary equitable remedies in courts while arbitration was ongoing, they would add such a clause to the arbitration agreement.

To support its interpretation, CCI cites language in clause three that awards costs and attorneys fees to "the prevailing party in any arbitration or action to enforce this Agreement," and phrasing in clause two that grants exclusive jurisdiction to courts for the "purpose" of "equitable remedies." These phrases, although consistent with CCI's reading of the arbitration agreement, are equally consistent with Improv West's interpretation. These phrases can support that the arbitration agreement lets the parties pursue equitable remedies in courts in aid of the arbitration, and gives those courts exclusive jurisdiction over, and awards costs and attorneys fees to the prevailing party in, those actions.

We conclude that the arbitration agreement is "capable of two different reasonable interpretations." *Oceanside 84*, 56 Cal. App. 4th at 1448. Under the federal presumption in favor of arbitration, because the arbitration agreement is ambiguous, it should be interpreted as granting arbitration coverage over "all disputes" arising from the Trademark Agreement. *See AT&T Techs.*, 475 U.S. at 650; *Three Valleys*, 925 F.2d at 1139. We hold that the arbitration agreement gave the arbitrator authority over all disputes, equitable

and legal, and that he did not exceed his authority by arbitrating equitable claims.

B

We next address CCI's argument that the arbitrator exceeded the scope of his authority in issuing two permanent injunctions, which would provide grounds to vacate the arbitration award. *See Coutee v. Barington Capital Group, L.P.*, 336 F.3d 1128, 1134 (9th Cir. 2003); 9 U.S.C. § 10(a)(4).

In his partial arbitration award, the arbitrator (1) enjoined CCI and its Affiliates from opening or operating any other comedy clubs other than those open or under construction as of October 15, 2002 for the duration of the Trademark Agreement and (2) enjoined CCI and its Affiliates from changing the name on any of their current clubs until the Trademark Agreement ended. CCI argues that because the Trademark Agreement defines Affiliates to include "family members, family members of shareholders, all collateral relatives,[10] former spouses, and all collateral relatives of former spouses," the permanent injunctions attempt to bind persons beyond the scope of the arbitrator's authority.[11] We agree.

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[10] Black's Law Dictionary defines "collateral relative" as "[a] relative who is not in the direct line of descent, such as a cousin." Black's Law Dictionary 1315 (8th ed. 2004).

[11] CCI raises this issue for the first time on appeal. Although we generally do "not consider an issue raised for the first

(Continued on following page)

A contract may bind non-parties such as an intended third party beneficiary, an agent, or an assignee. *See Benasra v. Marciano,* 92 Cal. App. 4th 987, 991 (2001). But generally arbitration clauses and contracts do not bind non-parties in the absence of such extraordinary relationships. As explained in *Buckner v. Tamarin,* 98 Cal. App. 4th 140 (2002): "The strong public policy in favor of arbitration does not extend to those who are not parties to an arbitration agreement. . . ." *Id.* at 142 (internal quotation marks omitted); *see also NORCAL Mut. Ins. Co. v. Newton,* 84 Cal. App. 4th 64, 76 (2000) ("The common thread . . . is the existence of an agency or similar relationship between the nonsignatory and one of the parties to the arbitration agreement. In the absence of such a relationship, courts have refused to hold nonsignatories to arbitration agreements.").

Here, the arbitrator's injunctions, relying on the Trademark Agreement's definition of Affiliate, seek to prevent people such as cousins of former spouses of CCI partners from opening or operating any comedy

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time on appeal," we recognize three exceptions to that rule, by which we may invoke our discretion and review the issue: (1) where "review is necessary to prevent a miscarriage of justice or to preserve the integrity of the judicial process"; (2) where there is a change in the law creating a new issue; or (3) "when the issue presented is purely one of law and either does not depend on the factual record developed below, or the pertinent record has been fully developed." *Cold Mountain v. Garber,* 375 F.3d 884, 891 (9th Cir. 2004) (internal quotation marks and citation omitted). Here, we exercise our discretion and review CCI's argument under exceptions one and three.

club within the United States until 2019. These collateral relatives are not in privity with the Trademark Agreement signatories, or with CCI shareholders, partners, or "persons." As an example, it is not reasonable to preclude from gainful competition in the comedy club sphere relatives of ex-spouses of the CCI principals who were not in an agency relationship with those principals. Similarly, the arbitrator did not have authority to enjoin a non-party grandmother of a CCI partner from opening a restaurant with live stand up comedy performance until the year 2019. Under California law, the arbitrator lacked the authority to enjoin these non-parties from owning or operating comedy-related businesses or restaurants.

Improv West contends that Federal Rule of Civil Procedure 65(d) ("Rule 65(d)") establishes that an injunction may bind not only parties to the action but also "their officers, agents, servants, employees, and attorneys, and [upon] those persons in active concert or participation with them." Fed. R. Civ. P. 65(d). However, the wholesale inclusion of relatives as Affiliates in the Trademark Agreement's covenant not to compete, and the injunctions in the arbitrator's partial award, go well beyond binding CCI's agents, employees, or people in active concert or participation with it as Rule 65(d) permits. Indeed, as mentioned above, § 9.j., by its own terms, reaches beyond persons with an agency or assignee relationship with CCI partners, and literally purports to bind a CCI "person's" ex-wife and his ex-wife's cousins, nephews, uncles, and aunts. The text of Rule 65(d) is exclusive,

stating that an injunction can permissibly bind "only" those persons listed in Rule 65(d). Rule 65(d) does not list collateral relatives of former spouses, or even grandparents, as potential non-parties who may be bound by a contract or an arbitration award. And we do not think it is a proper use of equitable power to restrain all such persons.

Moreover, precluding non-party relatives or ex-spouses from opening or operating improv-comedy-related businesses or restaurants violates CBPC § 16600. CBPC § 16600 provides, in relevant part, that "every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void." *Id.* This is a codification of "the general rule in California [that] covenants not to compete are void." *Hill Med. Corp. v. Wycoff,* 86 Cal. App. 4th 895, 901 (2001). By restricting non-party relatives and ex-spouses from engaging in a lawful business, the injunctions, with respect to those persons, exceed the arbitrator's authority.

We conclude that the arbitrator acted beyond the scope of his authority as a matter of California law in attempting to bind all of CCI's Affiliates, including relatives who were not parties to the Trademark Agreement, and thus could not be bound by its provisions. If an arbitrator exceeded the scope of his authority in issuing an award, and that award is divisible, we may vacate part of the award and leave the remainder in force. *See Lyle v. Rodgers,* 18 U.S. (5 Wheat.) 394, 409 (1820) (Marshall, C.J.) (stating that "an award may be void in part, and good for the

residue"); *Barington Capital,* 336 F.3d at 1134 ("A federal court may vacate an arbitration award, or a portion thereof, if the arbitrators acted beyond their authority."). We therefore conclude that the district court should vacate the arbitration award insofar as it enjoins any of CCI's Affiliates who are not connected to the principals of CCI as, by analogy to Rule 65(d), "their officers, agents, servants, employees, and attorneys, and [upon] those persons in active concert or participation with them." We hold that a narrowing of the restrictive covenant on Affiliates is required by CBPC § 16600 and the principle that non-parties generally are not bound in arbitration. Such non-parties can only be restrained to the extent permitted by Rule 65(d).

C

CCI next contends that the partial arbitration award is irrational because it simultaneously revokes CCI's license to open Improv clubs and prevents CCI from opening or operating any other comedy clubs anywhere in the United States until 2019 or the termination of the Trademark Agreement.

Review of an arbitration award is "'both limited and highly deferential'" and the arbitration award "may be vacated only if it is 'completely irrational' or 'constitutes manifest disregard of the law.'" *Poweragent Inc. v. Elec. Data Sys. Corp.,* 358 F.3d 1187, 1193 (9th Cir. 2004) (quoting *Barington Capital,* 336 F.3d at 1132-33). We have not elaborated on what

"completely irrational" means, but the Eighth Circuit has persuasively indicated that the "completely irrational" standard is extremely narrow and is satisfied only "where [the arbitration decision] fails to draw its essence from the agreement." *Hoffman v. Cargill Inc.*, 236 F.3d 458, 461-62 (8th Cir. 2001). This is a view that we adopt.

Under the partial arbitration award, CCI lost its exclusive right to open and operate any new Improv clubs using Improv West's license. And because the arbitrator found the § 9.j. covenant not to compete of the Trademark Agreement valid, CCI also lost the right to open and operate any other new comedy clubs or restaurants under any other license or name anywhere in the contiguous United States as long as the Trademark Agreement remained in effect. Thus, apart from allowing CCI to continue to operate the handful of Improv clubs that it had already opened or purchased, *see supra* note 4, the arbitrator's ruling put CCI out of the comedy club business.

CCI argues that if it has lost all licensing rights, then there is no longer any licensing agreement. Both parties agree that if the Trademark Agreement is no longer in effect then the § 9.j. covenant not to compete similarly would no longer be in effect, and the arbitrator's award would be considered irrational.

However, as Improv West correctly asserts, Improv West did not cancel the Trademark Agreement, neither party sought to terminate the Trademark Agreement as part of the underlying actions, and

nothing in the parties' submissions, the arbitrator's rulings, or the district court's orders suggest that the Trademark Agreement was cancelled. Instead, CCI was still bound under other sections of the Trademark Agreement to pay Improv West royalties on the seven Improv clubs it still operated at the conclusion of the arbitration.

A breach by a party to a contract does not in itself cancel the contract.[12] Cancellation of a contract occurs when "either party puts an end to the contract for breach by the other."[13] *See* Bernard E. Witkin, *Summary of California Law* § 925 (10th ed. 2005) (internal quotation marks omitted); *see also* Restatement (Second) of Contracts § 274 (1979); 13 Arthur Linton Corbin, *Corbin on Contracts* § 67.2 (Rev. ed 2003).

At the time of arbitration, Improv West had not cancelled, nor had the parties terminated, the contract. In the arbitration Improv West did not seek to terminate the contract. By the arbitrator's own award, the arbitrator did not modify the party's contractual relationship, including the required payment

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[12] The general rule is that if the breach is a material breach, it may give grounds for the non-breaching party to cancel the contract, *see Rano v. Sipa Press, Inc.*, 987 F.2d 580, 586 (9th Cir. 1993), but if the breach is a partial breach, the non-breaching party's remedy is for damages. *See Postal Instant Press, Inc. v. Sealy*, 43 Cal. App. 4th 1704, 1708-09 (1996).

[13] "'Termination occurs when either party pursuant to a power created by agreement or law puts an end to the contract otherwise than for its breach.'" *See* Witkin, *Summary of California Law* § 925 (internal quotation marks omitted).

of royalties, on the seven Improv clubs that CCI had opened or bought and was running. Further, per the arbitrator's award, the covenant not to compete ends when the Trademark Agreement ends. CCI will then be able to open up other non-Improv clubs.

CCI entered into the Trademark Agreement with knowledge that there would be consequences if it defaulted on the development schedule in § 12.a. of the Trademark Agreement. An arbitrator could rationally decide that the § 9.j. covenant not to compete was valid to some degree, while at the same time upholding Improv West's remedy to end CCI's exclusive license rights to open other Improv clubs.

The basic outline of what the arbitrator did, terminating an exclusive right to open Improv clubs nationwide, because of contractually inadequate performance contrary to the agreed schedule, while keeping in force the restrictive covenant makes sense in so far as CCI should not have an exclusive license on Improv clubs absent complying with designated performance. And so long as CCI was running some Improv clubs, a restrictive covenant to some degree could protect Improv West from damage caused by improper competition. Because we cannot say that there is no basis in the record for the arbitrator's decision, we hold that the arbitrator's award is not completely irrational. *See NF&M*, 524 F.2d at 760.

D

Finally, we address CCI's claim that the partial arbitration award should be vacated because it is in violation of CBPC § 16600. CCI argues that the arbitrator's validation of § 9.j. is in manifest disregard of the law. Improv West counters that after the recent Supreme Court case, *Hall Street Associates,* 128 S. Ct. 1396 (2008), manifest disregard of the law is not a valid ground for vacatur. In *Hall Street Associates,* the Supreme Court held that the FAA provided exclusive grounds to modify or vacate an arbitration award. *Id.* at 1404. Improv West argues that manifest disregard of the law is not among the statutory grounds for vacatur, and therefore we must amend our prior opinion that vacated this part of the arbitrator's award for that reason.

We have already determined that the manifest disregard ground for vacatur is shorthand for a statutory ground under the FAA, specifically 9 U.S.C. § 10(a)(4), which states that the court may vacate "where the arbitrators exceeded their powers." *Kyocera Corp. v. Prudential-Bache T Servs.,* 341 F.3d 987, 997 (9th Cir. 2003) (en banc) (holding that "arbitrators 'exceed their powers' . . . when the award is 'completely irrational,' or exhibits a 'manifest disregard of law' ") (citations omitted). The Supreme Court did not reach the question of whether the manifest disregard of the law doctrine fits within §§ 10 or 11 of the FAA. *Hall Street Associates,* 128 S. Ct. at 1404. Instead, it listed several possible readings of the doctrine, including our own. *Id.* ("Or, as some courts have

thought, 'manifest disregard' may have been shorthand for § 10(a)(3) or § 10(a)(4), the subsections authorizing vacatur when the arbitrators were 'guilty of misconduct' or 'exceeded their powers.'") (*citing Kyocera,* 341 F.3d at 997). We cannot say that *Hall Street Associates* is "clearly irreconcilable" with *Kyocera* and thus we are bound by our prior precedent. *See Miller v. Gammie,* 335 F.3d 889, 900 (9th Cir. 2003) (en banc). Therefore, we conclude that, after *Hall Street Associates,* manifest disregard of the law remains a valid ground for vacatur because it is a part of § 10(a)(4). We note that we join the Second Circuit in this interpretation of *Hall Street Associates. Stolt-Nielsen Transportation,* 548 F.3d 85 (2d Cir. 2008). *But see Ramos-Santiago v. UPS,* 524 F.3d 120, 124 n.3 (1st Cir. 2008).

We have stated that for an arbitrator's award to be in manifest disregard of the law, "[i]t must be clear from the record that the arbitrator [ ] recognized the applicable law and then ignored it." *Mich. Mut. Ins. Co. v. Unigard Sec. Ins. Co.,* 44 F.3d 826, 832 (9th Cir. 1995).

Under CBPC § 16600, it is well established that broad covenants not to compete are void unless they involve a situation where "a person sells the goodwill of a business [or] where a partner agrees not to compete in anticipation of dissolution of a partnership," *see Kelton v. Stravinski,* 138 Cal. App. 4th 941, 946 (2006), CBPC §§ 16601, 16602, or "they are necessary to protect . . . trade secrets." *Whyte v. Schlage Lock Co.,* 101 Cal. App. 4th 1443, 1462 (2002). Neither

party alleges any of the above exceptions apply in this case.

The majority of cases interpreting CBPC § 16600 under California law deal with post-contract or post-employment covenants not to compete. *See e.g., Whyte v. Schlage Lock Co.,* 101 Cal. App. 4th at 1443; *Thompson v. Impaxx, Inc.,* 113 Cal. App. 4th 1425, 1427-29 (2003). In this case, the Trademark Agreement has not been terminated or canceled; rather the contractual relationship between CCI and Improv West is ongoing and § 9.j. can be viewed as an in-term covenant not to compete.[14]

We have not found, and the parties do not cite, any Ninth Circuit or California cases holding that in-term covenants not to compete of any scope are necessarily valid. There are, however, cases addressing in-term covenants not to compete, and we discuss several of those cases here because of the limitations

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[14] Because Improv West revoked CCI's rights to the Improv marks for almost the entire contiguous United States, the Improv West-CCI licensing relationship has ended except as to the existing Improv clubs. Bearing this in mind, it might be possible to view § 9.j., with respect to the majority of the United States, functionally as if it were a post-term covenant not to compete, and with respect to the Improv clubs that CCI continues to operate, as an in-term covenant not to compete. However, because the contract relationship has not been canceled, and continues for the existing Improv clubs operated by CCI, we think it more appropriate conceptually to analyze § 9.j. nationwide as an in-term covenant not to compete, while considering CCI's limited continuing use of the Improv marks as pertinent to the scope of § 9.j.

that we believe they impose under § 16600, even in the context of a continuing covenant not to compete.

Most significant to our analysis is *Dayton Time Lock Service, Inc. v. Silent Watchman Corp.*, 52 Cal. App. 3d 1 (1975), in which the California Court of Appeal, addressed an in-term "exclusive dealing clause" in a franchise agreement. *Id.* at 6. The exclusive dealing clause provided in part that "during the life of this contract, . . . [Dayton Time Lock Service, Inc. ('DTLS')] will not sell or lease any locks, devices or service of any kind in competition with the business of [Silent Watchman Corp. ('SW')], or use any time recording lock not supplied by [SW] under this agreement." *Id.* DTLS argued that this anti-competitive provision, along with a separate postfranchise covenant not to compete, violated state and federal antitrust laws. *Id.* The California Court of Appeal first noted that SW conceded that the post-term covenant not to compete violated the state antitrust law CBPC § 16600. *Id.* Next, the court specifically addressed whether the in-term covenant not to compete was valid. In this context, the court held that "[e]xclusive-dealing contracts are not necessarily invalid," but "[t]hey are proscribed when it is probable that performance of the contract will foreclose competition in a substantial share of the affected line of commerce." *Id.* In doing so, *Dayton Time Lock* imposed the standards analogous unto federal antitrust law when interpreting § 16600. *See*

id. (citing *Standard Oil Co. v. United States,* 337 U.S. 293, 314 (1949)).[15]

In *Kelton v. Stravinski,* the California Court of Appeal addressed another in-term covenant not to compete, this time in a partnership context. 138

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[15] Similar to *Dayton Time Lock,* the District Court for the Northern District of Illinois in *Great Frame Up Systems, Inc. v. Jazayeri Enterprises,* 789 F.Supp. 253 (N. D. Ill. 1992), stated, while interpreting California law on CBPC § 16600, that California courts support the position "that preventing defendants from competing only during the term of [an] existing franchise agreement, would not be void." *Id.* at 255. The court reasoned, however, that the in-term contractual provisions still cannot prevent a party from engaging in an entire profession, business or trade. *See id.* at 256.

Finally, in *General Commercial Packaging, Inc. v. TPS Package Engineering, Inc.,* 126 F.3d 1131 (9th Cir. 1997) (per curiam), we addressed a covenant not to compete in a general contractor-subcontractor context. General Commercial Packaging ("GCP"), a packing and crating service, subcontracted with TPS for TPS to provide packing and crating services for Walt Disney Company, one of GCP's major customers. *Id.* at 1132. TPS and GCP signed an in-term and post-term covenant not to compete, which provided that TPS would not work directly for, or solicit business from, Disney or any other company GCP introduced to TPS. *Id.* Although from the opinion it is unclear whether TPS and GCP's business relationship dissolved, we nonetheless upheld the covenant not to compete because it only limited the sub-contractor's "access to a narrow segment of the packing and shipping market." *Id.* at 1134. Because the covenant not to compete left a substantial portion of the packing and shipping market open to TPS, we held that the covenant not to compete was enforceable. *Id.*

Cal. App. 4th at 945.[16] The court held that even though the Kelton-Stravinski covenant not to compete was during an ongoing business relationship, it violated CBPC § 16600 and was unenforceable. *Kelton,* 138 Cal. App. 4th at 947. The court in *Kelton* limited *Dayton Time Lock* to franchise agreements. However, in stressing CBPC § 16600's strong policy against anti-competition agreements, the court reaffirmed that in the franchise context, § 16600 prohibits an in-term covenant not to compete that "will foreclose competition in a substantial share of the affected line of commerce." *Kelton,* 138 Cal. App. 4th at 947-48.

Dayton Time Lock and *Kelton* make evident that under CBPC § 16600 an in-term covenant not to compete in a franchise-like agreement will be void if it "foreclose[s] competition in a substantial share" of a business, trade, or market. *Dayton Time Lock,* 52 Cal. App. 3d at 6; *Kelton,* 138 Cal. App. 4th at 948. Also, California courts are less willing to approve in-term covenants not to compete outside a franchise context because there is not a need "to protect and maintain [the franchisor's] trademark, trade name and goodwill." *Kelton,* 138 Cal. App. 4th at 948. Keeping in mind these settled principles of California law that were set forth in *Dayton Time Lock* and reaffirmed by *Kelton,* which principles were expressly

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[16] The covenant not to compete provided that Kelton agreed not to operate any warehouses and Stravinski agreed not to design or build any warehouses. *Kelton,* 138 Cal. App. 4th at 945.

before the arbitrator, we proceed to evaluate whether the arbitrator's decision was in manifest disregard of the law.

CCI's "business" is operating full-service comedy clubs. CCI currently operates at least seven Improv clubs. *See supra* note 4. As interpreted by the arbitrator, the § 9.j. covenant not to compete applies geographically to the contiguous United States, and does not end until 2019. Thus, the covenant not to compete has dramatic geographic and temporal scope. Combined with the arbitrator's ruling that CCI forfeited its rights to use the Improv marks license in any new location, the practical effect of the arbitrator's award enforcing § 9.j. is that for more than fourteen years the entire contiguous United States comedy club market, except for CCI's current Improv clubs, is off limits to CCI. This "foreclose[s] competition in a substantial share" of the comedy club business. *Dayton Time Lock,* 52 Cal. App. 3d at 6; *see also Gen. Commercial,* 126 F.3d at 1134 (reasoning that a contract cannot place "a substantial segment of the market off limits").

In ruling on CCI's motion for reconsideration the arbitrator reasoned as follows:

> *Dayton Time Lock* . . . is inapplicable. That case involved an attack on an exclusive dealing contract under the *antitrust laws.* The cases cited in the portion of the *Dayton* opinion . . . involved validity of exclusive dealing contracts under the federal Sherman Act. The type of "rule of reason" analysis

> applied in antitrust cases – involving the determination whether a particular agreement unreasonably restricts competition generally in a defined geographic and product market – is not applicable to a determination of illegality under Section 16600. California's antitrust statute, the Cartwright Act, is separate and distinct from § 16600 of the Business & Professions Code.

The arbitrator's award, while aware of *Dayton Time Lock,* interpreted it in a way to render it inapplicable to this case. However, as we have explained, *Dayton Time Lock* established that under CBPC § 16600 in-term covenants not to compete cannot prevent a party from engaging in its business or trade in a substantial section of the market. The arbitrator's award effectively quarantines CCI from engaging in its business in forty-eight states until 2019 and does not follow well-established California law. *See Dayton Time Lock,* 52 Cal. App. 3d at 6; *Great Frame Up Sys.,* 789 F. Supp. at 256; *see also Gen. Commercial,* 126 F.3d at 1134. Even under the permissive standard with which we view arbitral decisions, the economic restraint of § 9.j. on competition is too broad to be countenanced in light of the clear prohibition of § 16600, as interpreted by the California courts. The grounds given by the arbitrator for disregarding *Dayton Time Lock* are fundamentally incorrect.[17] We hold that the arbitrator's ruling that

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[17] First, the arbitrator reasoned that *Dayton Time Lock* was inapplicable because it involved an assessment of antitrust laws.

(Continued on following page)

§ 9.j. is a valid covenant not to compete ignores CBPC § 16600 and thus is in manifest disregard of the law. To comply with § 16600, the covenant not to compete must be more narrowly tailored to relate to the areas in which CCI is operating Improv clubs under the license agreement.

However, we do not void the entire in-term covenant not to compete. *Kelton* stressed that the franchisor-franchisee context was different from an employment or partnership context. CCI's relationship with Improv West is in essence a franchise agreement as CCI contracted with Improv West to use Improv West's trademarks and open comedy clubs modeled on Improv West's clubs. *See Kelton,* 138 Cal. App. 4th at 947-48 (discussing franchising under California law). Assessing the requirements of California law, we weigh CCI's right to operate its business against Improv West's interest "to protect

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However, *Dayton Time Lock* made clear that it was assessing the requirements of CBPC § 16600, and its plain language applied standards from antitrust cases in aid of its application of § 16600. Second, the arbitrator thought § 16600 was inapplicable because California in the Cartwright Act had a separate antitrust statute distinct from § 16600, but the arbitrator's notice of the Cartwright Act does not detract from what *Dayton Time Lock* held in assessing an issue under § 16600, which *Dayton Time Lock* itself characterized as a state antitrust law. Both § 16600 and the Cartwright Act deal with antitrust and competition policy and it was not in the province of the arbitrator to make a "ruling" about § 16600 that was so at odds with what the California Court of Appeal stated in *Dayton Time Lock.*

and maintain its trademark, trade name and goodwill." *Id.* at 948. This balance tilts in favor of Improv West with regard to counties where CCI is operating an Improv club, but under the restraint of CBPC § 16600 California law does not permit an arbitrator to foreclose CCI's competition in opening comedy clubs throughout the United States.

Therefore, we hold that the district court should vacate the arbitrator's injunctive relief as to any county where CCI does not currently operate an Improv club, but uphold § 9.j. in those counties where CCI currently operates Improv clubs. *See Armendariz v. Found. Health Psychcare Servs., Inc.,* 24 Cal. 4th 83, 123 (2000) (stating that "overbroad covenants not to compete may be restricted temporally and geographically" (citing *Gen. Paint Corp. v. Seymour,* 124 Cal. App. 611, 614-15 (1932))). Nationwide CCI may open and operate non-Improv comedy clubs in all those counties where it does not currently operate an Improv club. However, CCI may not open or operate any non-Improv clubs in those counties where it currently owns or operates Improv clubs.

IV

In sum, we hold that CCI's appeal of the district court's order compelling arbitration is untimely and we lack jurisdiction to consider that issue. We conclude (1) that the arbitrator properly arbitrated the equitable claims; (2) that the arbitrator's award is not completely irrational; (3) that the arbitrator exceeded

the scope of his authority by enjoining the non-party Affiliates; and (4) that the arbitrator's award violates CBPC § 16600. We vacate the district court's order confirming the arbitration award and remand to the district court with instructions to vacate the Partial Final Arbitration Award in so far as it enjoins CCI's Affiliates, unless they are agents or otherwise acting for CCI, and to the extent it prevents CCI from opening or operating non-Improv clubs in counties in which CCI does not now operate or own an Improv club.[18]

AFFIRMED IN PART, VACATED IN PART, and REMANDED to the district court for further proceedings consistent with this opinion.

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[18] Improv West contends, without opposition from CCI, that the arbitration section in the Trademark Agreement entitles it to attorneys' fees and costs associated with this appeal and the confirmation proceedings of the arbitration awards. The arbitration agreement does award "costs, including reasonable attorneys fees" to "[t]he prevailing party." And we have upheld such an award for a party who successfully confirmed an arbitration award. *See A.G. Edwards & Sons, Inc. v. McCollough*, 967 F.2d 1401, 1404 (9th Cir. 1992) (per curiam) (ordering the arbitration award confirmed, and awarding the prevailing party "attorneys' fees in accordance with the agreements between the parties"). However, in this case Improv West partially confirmed the arbitrator's award, but we have modified the scope of that award. We hold that Improv West is entitled to costs and fees only with regard to its work on the issues on which it prevailed. We remand the issue of costs and attorneys' fees to the district court to determine the amount of reasonable attorneys' fees and costs that should awarded to Improv West insofar as it prevailed.

APPENDIX B

Supreme Court of the United States

***No.* 07-1334**

IMPROV WEST ASSOCIATES, ET AL.,

Petitioners

v.

COMEDY CLUB, INC., ET AL.

ON PETITION FOR WRIT OF CERTIORARI to the United States Court of Appeals for the Ninth Circuit.

THIS CAUSE having been submitted on the petition for a writ of certiorari and response thereto.

ON CONSIDERATION WHEREOF, it is ordered and adjudged by this Court that the petition for writ of certiorari is granted. The judgment of the above court is vacated with costs, and the case is remanded to the United States Court of Appeals for the Ninth Circuit for further consideration in light of *Hall Street Associates, L.L.C.* v. *Mattel, Inc.*, 552 U.S. ___ (2008).

IT IS FURTHER ORDERED that the petitioners Improv West Associates, et al., recover from Comedy Club, Inc., et al. Three Hundred Dollars ($300.00) for costs herein expended.

October 6, 2008

Clerk's costs: $300.00

A True copy WILLIAM K. SUTER
Test

[SEAL] **Clerk of the Supreme Court**
of the United States

By: /s/ Cynthia Rapp

APPENDIX C

United States Court of Appeals, Ninth Circuit

NOS. 05-55739, 05-56100

COMEDY CLUB, INC., a Louisiana corporation;
Al Copeland Investments, Inc.,
a Louisiana corporation,

Plaintiffs-Appellants,

v.

IMPROV WEST ASSOCIATES, a California Limited
Partnership; California Comedy, Inc.,
a California corporation,

Defendants-Appellees.

Comedy Club, Inc., a Louisiana corporation;
Al Copeland Investments, Inc.,
a Louisiana corporation,

Plaintiffs-Appellants,

v.

Improv West Associates, a California Limited
Partnership; California Comedy, Inc.,
a California corporation,

Defendants-Appellees.

Jan. 23, 2008

AMENDED OPINION

Before: JEROME FARRIS and RONALD M. GOULD, Circuit Judges, and KEVIN THOMAS DUFFY,* District Judge.

GOULD, Circuit Judge:

On June 13, 1999, Comedy Club, Inc. and Al Copeland Investments, Inc. (collectively "CCI") executed a Trademark License Agreement ("Trademark Agreement") with Improv West Associates ("Improv West") that granted CCI an exclusive nationwide license to use Improv West's trademarks. A few years later, CCI breached the agreement and sought to protect its interests in the trademarks in federal district court by filing a declaratory judgment action. After a complex procedural history, the parties were left with an arbitration award and two district court orders, one order compelling the parties to arbitrate, and another order confirming the arbitration award. CCI appeals both district court orders. We have jurisdiction under 28 U.S.C. §1291. We lack jurisdiction to review the district court's order compelling arbitration. We affirm in part and vacate in part the district court's order confirming the arbitration award, and we remand to the district court for further proceedings.

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* The Honorable Kevin Thomas Duffy, Senior United States District Judge for the Southern District of New York, sitting by designation.

I

Improv West is the founder of the Improv Comedy Club and the creator and owner of the "Improv" and "Improvisation" trademarks ("Improv marks"). CCI owns and operates restaurants and comedy clubs nationwide. On June 13, 1999, CCI and Improv West entered a Trademark Agreement[1] that provided, *inter alia*: (1) that Improv West granted CCI an exclusive nationwide license to use the Improv marks in connection with the opening of new comedy clubs; (2) that, according to a development schedule, CCI was to open four Improv clubs a year in 2001 through 2003;[2] and (3) that CCI was prohibited from opening any non-Improv comedy clubs during the term of the Trademark Agreement.[3] The Trademark Agreement also had an arbitration clause:

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[1] Also on June 13, 1999, in a separate Asset Purchase Agreement, CCI purchased the Melrose Improv Club from Improv West. The Melrose Improv Club is located in Los Angeles, California.

[2] The original §12.a. of the Trademark Agreement called for CCI to open and operate at least three Improv clubs by 2001, and two each year thereafter so that CCI would own and operate at least seven Improv clubs by 2003. CCI and Improv West amended §12.a. on October 19, 1999, creating the schedule of four Improv clubs a year in 2001 through 2003.

[3] Section 9j of the Trademark Agreement stated: "Licensee shall not own or operate, and Licensee shall ensure that none of its Affiliates shall own or operate any bar, restaurant, nightclub, or other facility which presents live stand-up or sketch comedy performances or live improvisational performances, other than the Melrose Improv or a Club, or Second City."

> All disputes relating to or arising under this Agreement or the Asset Purchase Agreement shall be resolved by arbitration in Los Angeles, California in accordance with the commercial arbitration rules of the American Arbitration Association. In any such arbitration, the parties shall be entitled to discovery in the same manner as if the dispute was being litigated in Los Angeles Superior Court. Notwithstanding this agreement to arbitrate, the parties, in addition to arbitration, shall be entitled to pursue equitable remedies and agree that the state and federal courts shall have exclusive jurisdiction for such purpose and for the purpose of compelling arbitration and/or enforcing any arbitration award. The parties agree to submit to the jurisdiction of such courts and agree that service of process in any such action may be made by certified mail. The prevailing party in any arbitration or action to enforce this Agreement or the Asset Purchase Agreement shall be entitled to its costs, including reasonable attorneys fees.

CCI concedes that it failed to open eight Improv clubs by 2002,[4] and that it was in default of amended §12.a. of the Trademark Agreement. Consistent with

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[4] In CCI's original complaint, CCI claims that it opened or obtained an interest in at least seven Improv clubs, not including the Melrose Improv Club.

Improv West's sole remedy, as stated in §13.b.,[5] Improv West sent CCI a letter asserting that CCI was in default of the Trademark Agreement, withdrawing CCI's license to use the Improv marks and rights to open more Improv clubs, and informing CCI that Improv West intended to begin opening its own Improv clubs.

In response to Improv West's letter, CCI filed a complaint in federal district court seeking declaratory relief. CCI's complaint sought a declaration that the covenant that CCI could not open any non-Improv comedy clubs was void under California Business and Professions Code ("CBPC") §16600, and that CCI's failure to meet the development schedule did not revoke CCI's license to the Improv marks or right to

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[5] Section 13.b. of the Trademark Agreement provided Improv West's sole remedy in the event CCI defaulted on the §12.a. development schedule. In pertinent part, §13.b. stated:

> Notwithstanding the above enumerated remedies, in the event [CCI] fails to fulfill the schedule set forth in section 12.a., [Improv West's] sole remedy shall be as follows. Upon notice to [CCI], [CCI] shall lose the right, power, and License (i) to use the Trademarks in connection with any Clubs which are not, as of the date of such failure, under construction or open for business and operated by [CCI], an Affiliate of [CCI] or other Operator and (ii) to sub-license Third Parties use of the Trademarks in connection with any new Clubs.

open Improv clubs. Improv West then filed a demand for arbitration seeking damages.[6]

On August 2, 2004, the district court ordered the parties to arbitrate their dispute. CCI did not appeal that order until May 16, 2005.

On February 28, 2005, the arbitrator entered a Partial Final Arbitration Award that stated: (1) that CCI defaulted on the Trademark Agreement by failing to adhere to the development schedule listed in amended §12.a.; (2) that CCI forfeited its rights to open Improv clubs and its use of the Improv marks license in connection with any clubs not open or under construction as of October 15, 2002; (3) that Improv West could open or license to third parties new Improv clubs; (4) that §9j of the Trademark Agreement was "a valid and enforceable in-term covenant not to compete" and remained valid "for the remaining term of the Agreement"[7]; (5) that CCI and its "Affiliates"[8] were enjoined from opening or

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[6] In a further response, CCI amended its complaint seeking to enjoin Improv West from opening, or authorizing third parties to open, any Improv clubs, and asking for disgorgement of Improv West's profits from any such action.

[7] Unless the parties agree to terminate the Trademark Agreement earlier, by its own terms, the Trademark Agreement does not end until 2019.

[8] Section 1 of the Trademark Agreement stated, in relevant part, that " 'a Person' is "any natural person, or any corporation, partnership, joint venture, limited liability company, business association, trust . . . or other entity," and that the term "Affiliate" means and includes "any members of such Person's

(Continued on following page)

operating any other comedy clubs other than those open or under construction as of October 15, 2002 for the duration of the Trademark Agreement; (6) that neither CCI nor its Affiliates could change the name on any of its current clubs; and (7) that Improv West was entitled to attorneys fees and costs. On April 14, 2005, the district court confirmed the Partial Award. CCI timely appealed, tendering to us the issues addressed in this opinion.[9]

II

CCI first argues that the district court erred when it issued its order compelling the parties to arbitrate. Improv West in turn contends that we lack jurisdiction over this issue because CCI's appeal of

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immediate family, or the member of the immediate family of any direct or indirect shareholder of such Person. . . . Further, the members of the immediate family of any Person shall include all collateral relatives of such Person having a common linear ancestor with such Person, and the spouse or any former spouse of such Person or any of such collateral relatives of such spouse."

[9] Although all the issues in this appeal concern the arbitrator's decision in the Partial Final Arbitration Award entered on February 28, 2005, the arbitrator issued a second arbitral award, the Final Arbitration Award, which was decided on May 20, 2005. The district court confirmed that award on June 21, 2005, and entered judgment on August 29, 2005. CCI timely appealed the district court's order confirming the Final Arbitration Award on July 20, 2005, but raised no issues on appeal concerning that award. We consolidated the two cases for appeal purposes.

the district court's order compelling arbitration is untimely.

The district court's order compelling the parties to arbitrate dismissed CCI's claims when it sent the parties to arbitration. Because the district court's order dismissed CCI's claims, it is a final order. *See Green Tree Fin. Corp. v. Randolph,* 531 U.S. 79, 86, 121 S.Ct. 513, 148 L.Ed.2d 373 (2000) (holding that a district court's order dismissing the plaintiffs claims and compelling arbitration was a final decision because the order "end[ed] the litigation on the merits and le[ft] nothing more for the court to do but execute the judgment" (internal quotation marks omitted)); *see also* 9 U.S.C. §16(a)(3) (2006) ("An appeal may be taken from . . . a final decision with respect to an arbitration that is subject to this title."); 9 U.S.C. §16(a)(3) prac. cmt. (instructing that subdivision (a)(3) makes appealable a district court's determination compelling arbitration that is a final decision); *Bushley v. Credit Suisse First Boston,* 360 F.3d 1149, 1153 n. 1 (9th Cir. 2004) (adopting the principle that "a dismissal renders an order appealable under §16(a)(3)" (citation omitted)).

28 U.S.C. §2107(a) and Federal Rule of Appellate Procedure 4(a)(1) require that a notice of appeal be filed in a civil case "within 30 days after the judgment or order appealed from is entered." Fed. R. App. P. 4(a)(1)(A). Because the district court did not enter judgment on the order to compel arbitration, CCI had 180 days to appeal the order. *See* Fed. R.App. P. 4(a)(7)(A)(ii); *see also Bowles v. Russell,* ___ U.S. ___,

127 S.Ct. 2360, 2363, 168 L.Ed.2d 96 (2007) (stating that "the taking of an appeal within the prescribed time is mandatory and jurisdictional" (internal quotation marks omitted)).

CCI filed its first notice of appeal of the district court's order compelling arbitration on May 16, 2005, 287 days after the order was entered on August 2, 2004. This is well beyond the 180 days allowed by Federal Rule of Appellate Procedure 4(a)(7)(A)(ii). CCI's appeal of the district court's order compelling arbitration is untimely, and we lack jurisdiction to hear the appeal of that issue.

III

We next consider CCI's contention that the district court erred by confirming the arbitration award. We review a district court's confirmation of an arbitration award de novo. *See First Options of Chi., Inc. v. Kaplan,* 514 U.S. 938, 947-48, 115 S.Ct. 1920, 131 L.Ed.2d 985 (1995). CCI presents four arguments: (1) that the arbitrator lacked authority to arbitrate the equitable claims; (2) that the arbitrator exceeded the scope of his authority by issuing two permanent injunctions; (3) that the arbitrator's award is irrational; and (4) that the arbitrator's award violates CBPC §16600. We address each argument in turn.

A

CCI submits that the arbitrator lacked authority to arbitrate because the arbitration clause in the Trademark Agreement grants state and federal courts an "exclusive" jurisdiction over equitable claims. We review the validity and scope of an arbitration clause de novo. *See Moore v. Local 569 of Int'l Bhd. of Elec. Workers,* 53 F.3d 1054, 1055-56 (9th Cir. 1995).

It is well established "that where the contract contains an arbitration clause, there is a presumption of arbitrability." *AT & T Techs., Inc. v. Commc'ns Workers of Am.,* 475 U.S. 643, 650, 106 S.Ct. 1415, 89 L.Ed.2d 648 (1986). "[A]n order to arbitrate the particular grievance should not be denied unless it may be said with positive assurance that the arbitration clause is not susceptible of an interpretation that covers the asserted dispute. Doubts should be resolved in favor of coverage." *Id.*; *see also Three Valleys Mun. Water Dist. v. E.F. Hutton & Co.,* 925 F.2d 1136, 1139 (9th Cir. 1991) ("Under the Federal Arbitration Act . . . any doubts concerning the scope of arbitrable issues should be resolved in favor of arbitration. . . ." (internal quotation marks and citation omitted)).

It is also well established that "[w]hen deciding whether the parties agreed to arbitrate a certain matter . . . courts generally . . . should apply ordinary state-law principles that govern the formation of contracts." *First Options,* 514 U.S. at 944, 115 S.Ct. 1920. Only disputes "that the parties have agreed to

submit to arbitration" should be arbitrated. *Id.* at 943, 115 S.Ct. 1920; *see also Republic of Nicar. v. Standard Fruit Co.*, 937 F.2d 469, 478 (9th Cir. 1991) (stating that "[t]he scope of the [arbitration] clause must . . . be interpreted liberally").

Under California contract law, "if the language [of a contract] is clear and explicit, and does not involve an absurdity" the language must govern the contract's interpretation. Cal. Civ.Code §1638. Moreover, when a contract is written, "the intention of the parties is to be ascertained from the writing alone, if possible." Cal. Civ.Code §1639. "[I]f reasonably practicable" a contract must be interpreted as a whole, "so as to give effect to every part, . . . each clause helping to interpret the other." Cal. Civ.Code §1641; *see also In re Affordable Hous. Dev. Corp.*, 175 B.R. 324, 329 (9th Cir. BAP 1994) ("California law provides that one phrase of a contract should not be interpreted so as to render another phrase of the contract meaningless."). However, "[i]f a contract is capable of two different reasonable interpretations, the contract is ambiguous," *Oceanside 84, Ltd. v. Fid. Fed. Bank,* 56 Cal.App.4th 1441, 1448, 66 Cal.Rptr.2d 487 (1997), and under the federal presumption in favor of arbitration, an arbitrator would have jurisdiction to arbitrate claims. *See AT & T Techs.*, 475 U.S. at 650, 106 S.Ct. 1415; Three Valleys, 925 F.2d at 1139.

Applying these principles, we conclude that the Trademark Agreement's arbitration clause grants the arbitrator authority over "all disputes" arising from

the Trademark Agreement. There are three relevant clauses in the arbitration agreement: (1) "[a]ll disputes relating to or arising under this Agreement . . . shall be resolved by arbitration"; (2) "[n]otwithstanding this agreement to arbitrate, the parties, in addition to arbitration, shall be entitled to pursue equitable remedies and agree that the state and federal courts shall have exclusive jurisdiction for such purpose and for the purpose of compelling arbitration and/or enforcing any arbitration award"; and (3) "[t]he prevailing party in any arbitration or action to enforce this Agreement . . . shall be entitled to its costs, including reasonable attorneys fees."

CCI contends that clause two is explicit that only state and federal courts, and not an arbitrator, have jurisdiction over equitable claims. Improv West counters that the second clause only carved out equitable claims "in aid of arbitration" to maintain the status quo between the parties pending arbitration, and that the second clause did not "supplant the arbitrator's authority" to decide all disputes under the Trademark Agreement.

A natural reading of clause two lends plausibility to Improv West's theory. The language "in addition to arbitration" in clause two suggests that arbitration still applies to all disputes, but that in addition, the parties are "entitled to pursue equitable remedies" before courts. If the parties intended to carve out an exception to arbitration for all equitable claims, they could have done so without the language "in addition to arbitration." Because the parties included this

language, it is plausible and a permissible contract interpretation that the equitable claims exception in clause two was intended to apply only to claims designed to maintain the status quo between the parties. Stated another way, it was a rational interpretation of the agreement to say that the arbitrator could decide both equitable and legal claims and that the provision for court jurisdiction on equitable matters was ancillary to the arbitration. Moreover, the Federal Arbitration Act, 9 U.S.C. §3, provides a court with the ability to stay "trial of [an] action until such arbitration has been had," but it does not give a court the authority to issue equitable remedies, such as a temporary injunction, to maintain the status quo between the parties. Thus, it makes sense that if the parties wanted to give themselves the ability to seek temporary equitable remedies in courts while arbitration was ongoing, they would add such a clause to the arbitration agreement.

To support its interpretation, CCI cites language in clause three that awards costs and attorneys fees to "the prevailing party in any arbitration or action to enforce this Agreement," and phrasing in clause two that grants exclusive jurisdiction to courts for the "purpose" of "equitable remedies." These phrases, although consistent with CCI's reading of the arbitration agreement, are equally consistent with Improv West's interpretation. These phrases can support that the arbitration agreement lets the parties pursue equitable remedies in courts in aid of the arbitration, and gives those courts exclusive jurisdiction over, and

awards costs and attorneys fees to the prevailing party in, those actions.

We conclude that the arbitration agreement is "capable of two different reasonable interpretations." *Oceanside 84,* 56 Cal.App.4th at 1448, 66 Cal.Rptr.2d 487. Under the federal presumption in favor of arbitration, because the arbitration agreement is ambiguous, it should be interpreted as granting arbitration coverage over "all disputes" arising from the Trademark Agreement. *See AT&T Techs.,* 475 U.S. at 650, 106 S.Ct. 1415; *Three Valleys,* 925 F.2d at 1139. We hold that the arbitration agreement gave the arbitrator authority over all disputes, equitable and legal, and that he did not exceed his authority by arbitrating equitable claims.

B

We next address CCI's argument that the arbitrator exceeded the scope of his authority in issuing two permanent injunctions, which would provide grounds to vacate the arbitration award. *See Coutee v. Barington Capital Group, L.P.,* 336 F.3d 1128, 1134 (9th Cir. 2003); 9 U.S.C. §10(a)(4).

In his partial arbitration award, the arbitrator (1) enjoined CCI and its Affiliates from opening or operating any other comedy clubs other than those open or under construction as of October 15, 2002 for the duration of the Trademark Agreement and (2) enjoined CCI and its Affiliates from changing the name on any of their current clubs until the

Trademark Agreement ended. CCI argues that because the Trademark Agreement defines Affiliates to include "family members, family members of shareholders, all collateral relatives,[10] former spouses, and all collateral relatives of former spouses," the permanent injunctions attempt to bind persons beyond the scope of the arbitrator's authority.[11] We agree.

A contract may bind non-parties such as an intended third party beneficiary, an agent, or an assignee. *See Benasra v. Marciano,* 92 Cal.App.4th 987, 991, 112 Cal.Rptr.2d 358 (2001). But generally arbitration clauses and contracts do not bind non-parties in the absence of such extraordinary relationships. As explained in *Buckner v. Tamarin,* 98 Cal.App.4th 140, 119 Cal.Rptr.2d 489 (2002): "The

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[10] Black's Law Dictionary defines "collateral relative" as "[a] relative who is not in the direct line of descent, such as a cousin." Black's Law Dictionary 1315 (8th ed. 2004).

[11] CCI raises this issue for the first time on appeal. Although we generally do "not consider an issue raised for the first time on appeal," we recognize three exceptions to that rule, by which we may invoke our discretion and review the issue: (1) where "review is necessary to prevent a miscarriage of justice or to preserve the integrity of the judicial process"; (2) where there is a change in the law creating a new issue; or (3) "when the issue presented is purely one of law and either does not depend on the factual record developed below, or the pertinent record has been fully developed." *Cold Mountain v. Garber,* 375 F.3d 884, 891 (9th Cir. 2004) (internal quotation marks and citation omitted). Here, we exercise our discretion and review CCI's argument under exceptions one and three.

strong public policy in favor of arbitration does not extend to those who are not parties to an arbitration agreement. . . ." *Id.* at 142, 119 Cal.Rptr.2d 489 (internal quotation marks omitted); *see also NORCAL Mut. Ins. Co. v. Newton,* 84 Cal.App.4th 64, 76, 100 Cal.Rptr.2d 683 (2000) ("The common thread . . . is the existence of an agency or similar relationship between the nonsignatory and one of the parties to the arbitration agreement. In the absence of such a relationship, courts have refused to hold nonsignatories to arbitration agreements.").

Here, the arbitrator's injunctions, relying on the Trademark Agreement's definition of Affiliate, seek to prevent people such as cousins of former spouses of CCI partners from opening or operating any comedy club within the United States until 2019. These collateral relatives are not in privity with the Trademark Agreement signatories, or with CCI shareholders, partners, or "persons." As an example, it is not reasonable to preclude from gainful competition in the comedy club sphere relatives of ex-spouses of the CCI principals who were not in an agency relationship with those principals. Similarly, the arbitrator did not have authority to enjoin a nonparty grandmother of a CCI partner from opening a restaurant with live stand up comedy performance until the year 2019. Under California law, the arbitrator lacked the authority to enjoin these nonparties from owning or operating comedy related businesses or restaurants.

Improv West contends that Federal Rule of Civil Procedure 65(d) ("Rule 65(d)") establishes that an injunction may bind not only parties to the action but also "their officers, agents, servants, employees, and attorneys, and [upon] those persons in active concert or participation with them." Fed.R.Civ.P. 65(d). However, the wholesale inclusion of relatives as Affiliates in the Trademark Agreement's covenant not to compete, and the injunctions in the arbitrator's partial award, go well beyond binding CCI's agents, employees, or people in active concert or participation with it as Rule 65(d) permits. Indeed, as mentioned above, §9j, by its own terms, reaches beyond persons with an agency or assignee relationship with CCI partners, and literally purports to bind a CCI "person's" exwife and his ex-wife's cousins, nephews, uncles, and aunts. The text of Rule 65(d) is exclusive, stating that an injunction can permissibly bind "only" those persons listed in Rule 65(d). Rule 65(d) does not list collateral relatives of former spouses, or even grandparents, as potential non-parties who may be bound by a contract or an arbitration award. And we do not think it is a proper use of equitable power to restrain all such persons.

Moreover, precluding non-party relatives or ex-spouses from opening or operating improv-comedy-related businesses or restaurants violates CBPC §16600. CBPC §16600 provides, in relevant part, that "every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void." *Id.* This is a

codification of "the general rule in California [that] covenants not to compete are void." *Hill Med. Corp. v. Wycoff,* 86 Cal.App.4th 895, 901, 103 Cal.Rptr.2d 779 (2001). By restricting non-party relatives and ex-spouses from engaging in a lawful business, the injunctions, with respect to those persons, exceed the arbitrator's authority.

We conclude that the arbitrator acted beyond the scope of his authority as a matter of California law in attempting to bind all of CCI's Affiliates, including relatives who were not parties to the Trademark Agreement, and thus could not be bound by its provisions. If an arbitrator exceeded the scope of his authority in issuing an award, and that award is divisible, we may vacate part of the award and leave the remainder in force. *See Lyle v. Rodgers,* 18 U.S. (5 Wheat.) 394, 409, 5 L.Ed. 117 (1820) (Marshall, C.J.) (stating that "an award may be void in part, and good for the residue"); *Barington Capital,* 336 F.3d at 1134 ("A federal court may vacate an arbitration award, or a portion thereof, if the arbitrators acted beyond their authority."). We therefore conclude that the district court should vacate the arbitration award insofar as it enjoins any of CCI's Affiliates who are not connected to the principals of CCI as, by analogy to Rule 65(d), "their officers, agents, servants, employees, and attorneys, and [upon] those persons in active concert or participation with them." We hold that a narrowing of the restrictive covenant on Affiliates is required by CBPC §16600 and the principle that non-parties generally are not bound in

arbitration. Such non-parties can only be restrained to the extent permitted by Rule 65(d).

C

CCI next contends that the partial arbitration award is irrational because it simultaneously revokes CCI's license to open Improv clubs and prevents CCI from opening or operating any other comedy clubs anywhere in the United States until 2019 or the termination of the Trademark Agreement.

Review of an arbitration award is "'both limited and highly deferential'" and the arbitration award "may be vacated only if it is 'completely irrational' or 'constitutes manifest disregard of the law.'" *Poweragent Inc. v. Elec. Data Sys. Corp.*, 358 F.3d 1187, 1193 (9th Cir. 2004) (quoting *Barington Capital*, 336 F.3d at 1132-33). We have not elaborated on what "completely irrational" means, but the Eighth Circuit has persuasively indicated that the "completely irrational" standard is extremely narrow and is satisfied only "where [the arbitration decision fails to draw its essence from the agreement]." *Hoffman v. Cargill Inc.*, 236 F.3d 458, 461-62 (8th Cir. 2001). This is a view that we adopt.

Under the partial arbitration award, CCI lost its exclusive right to open and operate any new Improv clubs using Improv West's license. And because the arbitrator found the §9j covenant not to compete of the Trademark Agreement valid, CCI also lost the right to open and operate any other new comedy clubs

or restaurants under any other license or name anywhere in the contiguous United States as long as the Trademark Agreement remained in effect. Thus, apart from allowing CCI to continue to operate the handful of Improv clubs that it had already opened or purchased, *see supra* note 4, the arbitrator's ruling put CCI out of the comedy club business.

CCI argues that if it has lost all licensing rights, then there is no longer any licensing agreement. Both parties agree that if the Trademark Agreement is no longer in effect then the §9j covenant not to compete similarly would no longer be in effect, and the arbitrator's award would be considered irrational.

However, as Improv West correctly asserts, Improv West did not cancel the Trademark Agreement, neither party sought to terminate the Trademark Agreement as part of the underlying actions, and nothing in the parties' submissions, the arbitrator's rulings, or the district court's orders suggest that the Trademark Agreement was cancelled. Instead, CCI was still bound under other sections of the Trademark Agreement to pay Improv West royalties on the seven Improv clubs it still operated at the conclusion of the arbitration.

A breach by a party to a contract does not in itself cancel the contract.[12] Cancellation of a contract occurs

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[12] The general rule is that if the breach is a material breach, it may give grounds for the non-breaching party to cancel the contract, *see Rano v. Sipa Press, Inc.*, 987 F.2d 580, 586 (9th Cir.

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when "either party puts an end to the contract for breach by the other."[13] *See* Bernard E. Witkin, *Summary of California Law* §925 (10th ed.2005) (internal quotation marks omitted); *see also* Restatement (Second) of Contracts §274 (1979); 13 Arthur Linton Corbin, *Corbin on Contracts* §67.2 (Rev. ed. 2003).

At the time of arbitration, Improv West had not cancelled, nor had the parties terminated, the contract. In the arbitration Improv West did not seek to terminate the contract. By the arbitrator's own award, the arbitrator did not modify the party's contractual relationship, including the required payment of royalties, on the seven Improv clubs that CCI had opened or bought and was running. Further, per the arbitrator's award, the covenant not to compete ends when the Trademark Agreement ends. CCI will then be able to open up other non-Improv clubs.

CCI entered into the Trademark Agreement with knowledge that there would be consequences if it defaulted on the development schedule in §12.a. of the Trademark Agreement. An arbitrator could

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1993), but if the breach is a partial breach, the non-breaching party's remedy is for damages. *See Postal Instant Press, Inc. v. Sealy*, 43 Cal.App.4th 1704, 1708-09, 51 Cal.Rptr.2d 365 (1996).

[13] "'Termination occurs when either party pursuant to a power created by agreement or law puts an end to the contract otherwise than for its breach.'" *See* Witkin, *Summary of California Law*§925 (internal quotation marks omitted).

rationally decide that the §9j covenant not to compete was valid to some degree, while at the same time upholding Improv West's remedy to end CCI's exclusive license rights to open other Improv clubs.

The basic outline of what the arbitrator did, terminating an exclusive right to open Improv clubs nationwide, because of contractually inadequate performance contrary to the agreed schedule, while keeping in force the restrictive covenant makes sense in so far as CCI should not have an exclusive license on Improv clubs absent complying with designated performance. And so long as CCI was running some Improv clubs, a restrictive covenant to some degree could protect Improv West from damage caused by improper competition. Because we cannot say that there is no basis in the record for the arbitrator's decision, we hold that the arbitrator's award is not completely irrational. *See NF & M,* 524 F.2d at 760.

D

Finally, we address CCI's claim that the partial arbitration award should be vacated because it is in violation of CBPC §16600. CCI argues that the arbitrator's validation of §9j is in manifest disregard of the law. We have stated that for an arbitrator's award to be in manifest disregard of the law, "[i]t must be clear from the record that the arbitrator [] recognized the applicable law and then ignored it." *Mich. Mut. Ins. Co. v. Unigard Sec. Ins. Co.,* 44 F.3d 826, 832 (9th Cir. 1995).

Under CBPC §16600, it is well established that broad covenants not to compete are void unless they involve a situation where "a person sells the goodwill of a business [or] where a partner agrees not to compete in anticipation of dissolution of a partnership,"*see Kelton v. Stravinski,* 138 Cal. App. 4th 941, 946, 41 Cal.Rptr.3d 877 (2006), CBPC §§16601, 16602, or "they are necessary to protect trade secrets." *Alliance Payment Sys. v. Walczer,* 152 Cal.App.4th 620, 61 Cal.Rptr.3d 789 (2007). Neither party alleges any of the above exceptions apply in this case.

The majority of cases interpreting CBPC §16600 under California law deal with post-contract or post-employment covenants not to compete. *See e.g., Alliance Payment Sys.,* 152 Cal.App.4th 620, 61 Cal.Rptr.3d 789, 796; *Thompson v. Impaxx, Inc.,* 113 Cal.App.4th 1425, 1427-29, 7 Cal.Rptr.3d 427 (2003). In this case, the Trademark Agreement has not been terminated or canceled; rather the contractual relationship between CCI and Improv West is ongoing and §9j can be viewed as an in-term covenant not to compete.[14]

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[14] Because Improv West revoked CCI's rights to the Improv marks for almost the entire contiguous United States, the Improv West-CCI licensing relationship has ended except as to the existing Improv clubs. Bearing this in mind, it might be possible to view §9j, with respect to the majority of the United States, functionally as if it were a post-term covenant not to compete, and with respect to the Improv clubs that CCI continues to operate, as an in-term covenant not to compete.

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We have not found, and the parties do not cite, any Ninth Circuit or California cases holding that in-term covenants not to compete of any scope are necessarily valid. There are, however, cases addressing in-term covenants not to compete, and we discuss several of those cases here because of the limitations that we believe they impose under §16600, even in the context of a continuing covenant not to compete.

Most significant to our analysis is *Dayton Time Lock Service, Inc. v. Silent Watchman Corp.*, 52 Cal.App.3d 1, 124 Cal.Rptr. 678 (1975), in which the California Court of Appeal, addressed an in-term "exclusive dealing clause" in a franchise agreement. *Id.* at 6, 124 Cal.Rptr. 678. The exclusive dealing clause provided in part that "during the life of this contract, . . . [Dayton Time Lock Service, Inc. ("DTLS")] will not sell or lease any locks, devices or service of any kind in competition with the business of [Silent Watchman Corp. ("SW")], or use any time recording lock not supplied by [SW] under this agreement." *Id.* DTLS argued that this anti-competitive provision, along with a separate post-franchise covenant not to compete, violated state and federal antitrust laws. *Id.* The California Court of

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However, because the contract relationship has not been canceled, and continues for the existing Improv clubs operated by CCI, we think it more appropriate conceptually to analyze §9j nationwide as an in-term covenant not to compete, while considering CCI's limited continuing use of the Improv marks as pertinent to the scope of §9j.

Appeal first noted that SW conceded that the post-term covenant not to compete violated the state antitrust law CBPC §16600. *Id.* Next, the court specifically addressed whether the in-term covenant not to compete was valid. In this context, the court held that "[e]xclusive-dealing contracts are not necessarily invalid," but "[t]hey are proscribed when it is probable that performance of the contract will foreclose competition in a substantial share of the affected line of commerce." *Id.* In doing so, *Dayton Time Lock* imposed the standards analogous unto federal antitrust law when interpreting §16600. *See id.* (citing *Standard Oil Co. v. United States,* 337 U.S. 293, 314, 69 S.Ct. 1051, 93 L.Ed. 1371 (1949)).[15]

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[15] Similar to *Dayton Time Lock,* the District Court for the Northern District of Illinois in *Great Frame Up Systems, Inc. v. Jazayeri Enterprises,* 789 F.Supp. 253 (N.D.Ill.1992), stated, while interpreting California law on CBPC §16600, that California courts support the position "that preventing defendants from competing only during the term of [an] existing franchise agreement, would not be void." *Id.* at 255. The court reasoned, however, that the in-term contractual provisions still cannot prevent a party from engaging in an entire profession, business or trade. *See id.* at 256.

Finally, in *General Commercial Packaging, Inc. v. TPS Package Engineering, Inc.,* 126 F.3d 1131 (9th Cir. 1997) (per curiam), we addressed a covenant not to compete in a general contractor-subcontractor context. General Commercial Packaging ("GCP"), a packing and crating service, subcontracted with TPS for TPS to provide packing and crating services for Walt Disney Company, one of GCP's major customers. *Id.* at 1132. TPS and GCP signed an in-term and post-term covenant not to compete, which provided that TPS would not work directly for, or solicit business from, Disney or any other company GCP

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In *Kelton v. Stravinski,* the California Court of Appeal addressed another in-term covenant not to compete, this time in a partnership context. 138 Cal.App.4th at 945, 41 Cal.Rptr.3d 877.[16] The court held that even though the Kelton-Stravinski covenant not to compete was during an ongoing business relationship, it violated CBPC §16600 and was unenforceable. *Kelton,* 138 Cal.App.4th at 947, 41 Cal.Rptr.3d 877. The court in *Kelton* limited *Dayton Time Lock* to franchise agreements. However, in stressing CBPC §16600's strong policy against anti-competition agreements, the court reaffirmed that in the franchise context, §16600 prohibits an in-term covenant not to compete that "will foreclose competition in a substantial share of the affected line of commerce." *Kelton,* 138 Cal.App.4th at 947-48, 41 Cal.Rptr.3d 877.

Dayton Time Lock and *Kelton* make evident that under CBPC §16600 an in-term covenant not to compete in a franchise-like agreement will be void if

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introduced to TPS. *Id.* Although from the opinion it is unclear whether TPS and GCP's business relationship dissolved, we nonetheless upheld the covenant not to compete because it only limited the sub-contractor's "access to a narrow segment of the packing and shipping market." *Id.* at 1134. Because the covenant not to compete left a substantial portion of the packing and shipping market open to TPS, we held that the covenant not to compete was enforceable. *Id.*

[16] The covenant not to compete provided that Kelton agreed not to operate any warehouses and Stravinski agreed not to design or build any warehouses. *Kelton,* 138 Cal.App.4th at 945, 41 Cal.Rptr.3d 877.

it "foreclose[s] competition in a substantial share" of a business, trade, or market. *Dayton Time Lock,* 52 Cal.App.3d at 6, 124 Cal.Rptr. 678; *Kelton,* 138 Cal.App.4th at 948, 41 Cal.Rptr.3d 877. Also, California courts are less willing to approve in-term covenants not to compete outside a franchise context because there is not a need "to protect and maintain [the franchisor's] trademark, trade name and goodwill." *Kelton,* 138 Cal.App.4th at 948, 41 Cal.Rptr.3d 877. Keeping in mind these settled principles of California law that were set forth in *Dayton Time Lock* and reaffirmed by *Kelton,* which principles were expressly before the arbitrator, we proceed to evaluate whether the arbitrator's decision was in manifest disregard of the law.

CCI's "business" is operating full-service comedy clubs. CCI currently operates at least seven Improv clubs. *See supra* note 4. As interpreted by the arbitrator, the §9j covenant not to compete applies geographically to the contiguous United States, and does not end until 2019. Thus, the covenant not to compete has dramatic geographic and temporal scope. Combined with the arbitrator's ruling that CCI forfeited its rights to use the Improv marks license in any new location, the practical effect of the arbitrator's award enforcing §9j is that for more than fourteen years the entire contiguous United States comedy club market, except for CCI's current Improv clubs, is off limits to CCI. This "foreclose[s] competition in a substantial share" of the comedy club business. *Dayton Time Lock,* 52 Cal.App.3d at 6, 124

Cal.Rptr. 678; *see also Gen. Commercial,* 126 F.3d at 1134 (reasoning that a contract cannot place "a substantial segment of the market off limits").

In ruling on CCI's motion for reconsideration the arbitrator reasoned as follows:

> *Dayton Time Lock* . . . is inapplicable. That case involved an attack on an exclusive dealing contract under the *antitrust laws.* The cases cited in the portion of the *Dayton* opinion . . . involved validity of exclusive dealing contracts under the federal Sherman Act. The type of "rule of reason" analysis applied in antitrust cases-involving the determination whether a particular agreement unreasonably restricts competition generally in a defined geographic and product market-is not applicable to a determination of illegality under Section 16600. California's antitrust statute, the Cartwright Act, is separate and distinct from §16600 of the Business & Professions Code.

The arbitrator's award, while aware of *Dayton Time Lock,* interpreted it in a way to render it inapplicable to this case. However, as we have explained, *Dayton Time Lock* established that under CBPC §16600 in-term covenants not to compete cannot prevent a party from engaging in its business or trade in a substantial section of the market. The arbitrator's award effectively quarantines CCI from engaging in its business in forty-eight states until 2019 and does not follow well-established California law. *See Dayton Time Lock,* 52 Cal.App.3d at 6, 124

Cal.Rptr. 678; *Great Frame Up Sys.*, 789 F.Supp. at 256; *see also Gen. Commercial,* 126 F.3d at 1134. Even under the permissive standard with which we view arbitral decisions, the economic restraint of §9j on competition is too broad to be countenanced in light of the clear prohibition of §16600, as interpreted by the California courts. The grounds given by the arbitrator for disregarding *Dayton Time Lock* are fundamentally incorrect.[17] We hold that the arbitrator's ruling that §9j is a valid covenant not to compete ignores CBPC §16600 and thus is in manifest disregard of the law. To comply with §16600, the covenant not to compete must be more narrowly tailored to relate to the areas in which CCI is operating Improv clubs under the license agreement.

However, we do not void the entire in-term covenant not to compete. *Kelton* stressed that the

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[17] First, the arbitrator reasoned that *Dayton Time Lock* was inapplicable because it involved an assessment of antitrust laws. However, *Dayton Time Lock* made clear that it was assessing the requirements of CBPC §16600, and its plain language applied standards from antitrust cases in aid of its application of §16600. Second, the arbitrator thought §16600 was inapplicable because California in the Cartwright Act had a separate antitrust statute distinct from §16600, but the arbitrator's notice of the Cartwright Act does not detract from what *Dayton Time Lock* held in assessing an issue under §16600, which *Dayton Time Lock* itself characterized as a state antitrust law. Both §16600 and the Cartwright Act deal with antitrust and competition policy and it was not in the province of the arbitrator to make a "ruling" about §16600 that was so at odds with what the California Court of Appeal stated in *Dayton Time Lock*.

franchisor-franchisee context was different from an employment or partnership context. CCI's relationship with Improv West is in essence a franchise agreement as CCI contracted with Improv West to use Improv West's trademarks and open comedy clubs modeled on Improv West's clubs. *See Kelton,* 138 Cal.App.4th at 947-48, 41 Cal.Rptr.3d 877 (discussing franchising under California law). Assessing the requirements of California law, we weigh CCI's right to operate its business against Improv West's interest "to protect and maintain its trademark, trade name and goodwill." *Id.* at 948, 41 Cal.Rptr.3d 877. This balance tilts in favor of Improv West with regard to counties where CCI is operating an Improv club, but under the restraint of CBPC §16600 California law does not permit an arbitrator to foreclose CCI's competition in opening comedy clubs throughout the United States.

Therefore, we hold that the district court should vacate the arbitrator's injunctive relief as to any county where CCI does not currently operate an Improv club, but uphold §9j in those counties where CCI currently operates Improv clubs. *See Armendariz v. Found. Health Psychcare Servs., Inc.,* 24 Cal.4th 83, 123, 99 Cal.Rptr.2d 745, 6 P.3d 669 (2000) (stating that "overbroad covenants not to compete may be restricted temporally and geographically" (citing *Gen. Paint Corp. v. Seymour,* 124 Cal.App. 611, 614-15, 12 P.2d 990 (1932))). Nationwide CCI may open and operate non-Improv comedy clubs in all those counties where it does not currently operate an

Improv club. However, CCI may not open or operate any non-Improv clubs in those counties where it currently owns or operates Improv clubs.

IV

In sum, we hold that CCI's appeal of the district court's order compelling arbitration is untimely and we lack jurisdiction to consider that issue. We conclude (1) that the arbitrator properly arbitrated the equitable claims; (2) that the arbitrator's award is not completely irrational; (3) that the arbitrator exceeded the scope of his authority by enjoining the non-party Affiliates; and (4) that the arbitrator's award violates CBPC §16600. We vacate the district court's order confirming the arbitration award and remand to the district court with instructions to vacate the Partial Final Arbitration Award in so far as it enjoins CCI's Affiliates, unless they are agents or otherwise acting for CCI, and to the extent it prevents CCI from opening or operating non-Improv clubs in counties in which CCI does not now operate or own an Improv club.[18]

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[18] Improv West contends, without opposition from CCI, that the arbitration section in the Trademark Agreement entitles it to attorneys' fees and costs associated with this appeal and the confirmation proceedings of the arbitration awards. The arbitration agreement does award "costs, including reasonable attorneys fees" to "[t]he prevailing party." And we have upheld such an award for a party who successfully confirmed an arbitration award. *See A.G. Edwards & Sons, Inc. v.*

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AFFIRMED IN PART, VACATED IN PART, and REMANDED to the district court for further proceedings consistent with this opinion.

McCollough, 967 F.2d 1401, 1404 (9th Cir. 1992) (per curiam) (ordering the arbitration award confirmed, and awarding the prevailing party "attorneys' fees in accordance with the agreements between the parties"). However, in this case Improv West partially confirmed the arbitrator's award, but we have modified the scope of that award. We hold that Improv West is entitled to costs and fees only with regard to its work on the issues on which it prevailed. We remand the issue of costs and attorneys' fees to the district court to determine the amount of reasonable attorneys' fees and costs that should be awarded to Improv West insofar as it prevailed.

APPENDIX D

United States Court of Appeals, Ninth Circuit

NOS. 05-55739, 05-56100

COMEDY CLUB, INC., a Louisiana corporation;
Al Copeland Investments, Inc.,
a Louisiana corporation,

Plaintiffs-Appellants,

v.

IMPROV WEST ASSOCIATES, a California
Limited Partnership; California Comedy, Inc.,
a California corporation,

Defendants-Appellees.

Comedy Club, Inc., a Louisiana corporation;
Al Copeland Investments, Inc.,
a Louisiana corporation,

Plaintiffs-Appellants,

v.

Improv West Associates, a California
Limited Partnership; California Comedy, Inc.,
a California corporation,

Defendants-Appellees.

Sept. 7, 2007

OPINION

Before: JEROME FARRIS and RONALD M. GOULD, Circuit Judges, and KEVIN THOMAS DUFFY,* District Judge.

GOULD, Circuit Judge:

On June 13, 1999, Comedy Club, Inc. and Al Copeland Investments, Inc. (collectively "CCI") executed a Trademark License Agreement ("Trademark Agreement") with Improv West Associates ("Improv West") that granted CCI an exclusive nationwide license to use Improv West's trademarks. A few years later, CCI breached the agreement and sought to protect its interests in the trademarks in federal district court by filing a declaratory judgment action. After a complex procedural history, the parties were left with an arbitration award and two district court orders, one order compelling the parties to arbitrate, and another order confirming the arbitration award. CCI appeals both district court orders. We have jurisdiction under 28 U.S.C. § 1291. We lack jurisdiction to review the district court's order compelling arbitration. We affirm in part and vacate in part the district court's order confirming the arbitration award, and we remand to the district court for further proceedings.

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* The Honorable Kevin Thomas Duffy, Senior United States District Judge for the Southern District of New York, sitting by designation.

I

Improv West is the founder of the Improv Comedy Club and the creator and owner of the "Improv" and "Improvisation" trademarks ("Improv marks"). CCI owns and operates restaurants and comedy clubs nationwide. On June 13, 1999, CCI and Improv West entered a Trademark Agreement[1] that provided, *inter alia*: (1) that Improv West granted CCI an exclusive nationwide license to use the Improv marks in connection with the opening of new comedy clubs; (2) that, according to a development schedule, CCI was to open four Improv clubs a year in 2001 through 2003;[2] and (3) that CCI was prohibited from opening any non-Improv comedy clubs during the term of the Trademark Agreement.[3] The Trademark Agreement also had an arbitration clause:

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[1] Also on June 13, 1999, in a separate Asset Purchase Agreement, CCI purchased the Melrose Improv Club from Improv West. The Melrose Improv Club is located in Los Angeles, California.

[2] The original § 12.a. of the Trademark Agreement called for CCI to open and operate at least three Improv clubs by 2001, and two each year thereafter so that CCI would own and operate at least seven Improv clubs by 2003. CCI and Improv West amended § 12.a. on October 19, 1999, creating the schedule of four Improv clubs a year in 2001 through 2003.

[3] Section 9.j. of the Trademark Agreement stated: "Licensee shall not own or operate, and Licensee shall ensure that none of its Affiliates shall own or operate any bar, restaurant, nightclub, or other facility which presents live stand-up or sketch comedy performances or live improvisational performances, other than the Melrose Improv or a Club, or Second City."

> All disputes relating to or arising under this Agreement or the Asset Purchase Agreement shall be resolved by arbitration in Los Angeles, California in accordance with the commercial arbitration rules of the American Arbitration Association. In any such arbitration, the parties shall be entitled to discovery in the same manner as if the dispute was being litigated in Los Angeles Superior Court. Notwithstanding this agreement to arbitrate, the parties, in addition to arbitration, shall be entitled to pursue equitable remedies and agree that the state and federal courts shall have exclusive jurisdiction for such purpose and for the purpose of compelling arbitration and/or enforcing any arbitration award. The parties agree to submit to the jurisdiction of such courts and agree that service of process in any such action may be made by certified mail. The prevailing party in any arbitration or action to enforce this Agreement or the Asset Purchase Agreement shall be entitled to its costs, including reasonable attorneys fees.

CCI concedes that it failed to open eight Improv clubs by 2002,[4] and that it was in default of amended § 12.a. of the Trademark Agreement. Consistent with

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[4] In CCI's original complaint, CCI claims that it opened or obtained an interest in at least seven Improv clubs, not including the Melrose Improv Club.

Improv West's sole remedy, as stated in § 13.b.,[5] Improv West sent CCI a letter asserting that CCI was in default of the Trademark Agreement, withdrawing CCI's license to use the Improv marks and rights to open more Improv clubs, and informing CCI that Improv West intended to begin opening its own Improv clubs.

In response to Improv West's letter, CCI filed a complaint in federal district court seeking declaratory relief. CCI's complaint sought a declaration that the covenant that CCI could not open any non-Improv comedy clubs was void under California Business and Professions Code ("CBPC") § 16600, and that CCI's failure to meet the development schedule did not revoke CCI's license to the Improv marks or right to

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[5] Section 13.b. of the Trademark Agreement provided Improv West's sole remedy in the event CCI defaulted on the § 12.a. development schedule. In pertinent part, § 13.b. states:

> Notwithstanding the above enumerated remedies, in the event [CCI] fails to fulfill the schedule set forth in section 12.a., [Improv West's] sole remedy shall be as follows. Upon notice to [CCI], [CCI] shall lose the right, power, and License (i) to use the Trademarks in connection with any Clubs which are not, as of the date of such failure, under construction or open for business and operated by [CCI], an Affiliate of [CCI] or other Operator and (ii) to sub-license Third Parties use of the Trademarks in connection with any new Clubs.

open Improv clubs. Improv West then filed a demand for arbitration seeking damages.[6]

On August 2, 2004, the district court ordered the parties to arbitrate their dispute. CCI did not appeal that order until May 16, 2005.

On February 28, 2005, the arbitrator entered a Partial Final Arbitration Award that stated: (1) that CCI defaulted on the Trademark Agreement by failing to adhere to the development schedule listed in amended § 12.a.; (2) that CCI forfeited its rights to open Improv clubs and its use of the Improv marks license in connection with any clubs not open or under construction as of October 15, 2002; (3) that Improv West could open or license to third parties new Improv clubs; (4) that § 9.j. of the Trademark Agreement was "a valid and enforceable in-term covenant not to compete" and remained valid "for the remaining term of the Agreement"[7]; (5) that CCI and its "Affiliates"[8] were enjoined from opening or operating

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[6] In a further response, CCI amended its complaint seeking to enjoin Improv West from opening, or authorizing third parties to open, any Improv clubs, and asking for disgorgement of Improv West's profits from any such action.

[7] Unless the parties agree to terminate the Trademark Agreement earlier, by its own terms, the Trademark Agreement does not end until 2019.

[8] Section 1 of the Trademark Agreement stated, in relevant part, that "a 'Person' " is "any natural person, or any corporation, partnership, joint venture, limited liability company, business association, trust . . . or other entity," and that the term "Affiliate" means and includes "any members of such Person's

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any other comedy clubs other than those open or under construction as of October 15, 2002 for the duration of the Trademark Agreement; (6) that neither CCI nor its Affiliates could change the name on any of its current clubs; and (7) that Improv West was entitled to attorneys fees and costs. On April 14, 2005, the district court confirmed the Partial Award. CCI timely appealed, tendering to us the issues addressed in this opinion.[9]

II

CCI first argues that the district court erred when it issued its order compelling the parties to arbitrate. Improv West in turn contends that we lack jurisdiction over this issue because CCI's appeal of

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immediate family, or the member of the immediate family of any direct or indirect shareholder of such Person. . . . Further, the members of the immediate family of any Person shall include all collateral relatives of such Person having a common linear ancestor with such Person, and the spouse or any former spouse of such Person or any of such collateral relatives of such spouse."

[9] Although all the issues in this appeal concern the arbitrator's decision in the Partial Final Arbitration Award entered on February 28, 2005, the arbitrator issued a second arbitral award, the Final Arbitration Award, which was decided on May 20, 2005. The district court confirmed that award on June 21, 2005, and entered judgment on August 29, 2005. CCI timely appealed the district court's order confirming the Final Arbitration Award on July 20, 2005, but raised no issues on appeal concerning that award. We consolidated the two cases for appeal purposes.

the district court's order compelling arbitration is untimely.

The district court's order compelling the parties to arbitrate dismissed CCI's claims when it sent the parties to arbitration. Because the district court's order dismissed CCI's claims, it is a final order. *See Green Tree Fin. Corp. v. Randolph,* 531 U.S. 79, 86, 121 S.Ct. 513, 148 L.Ed.2d 373 (2000) (holding that a district court's order dismissing the plaintiff's claims and compelling arbitration was a final decision because the order "end[ed] the litigation on the merits and le[ft] nothing more for the court to do but execute the judgment" (internal quotation marks omitted)); *see also* 9 U.S.C. § 16(a)(3) (2006) ("An appeal may be taken from . . . a final decision with respect to an arbitration that is subject to this title."); 9 U.S.C. § 16(a)(3) prac. cmt. (instructing that subdivision (a)(3) makes appealable a district court's determination compelling arbitration that is a final decision); *Bushley v. Credit Suisse First Boston,* 360 F.3d 1149, 1153 n. 1 (9th Cir.2004) (adopting the principle that "a dismissal renders an order appealable under § 16(a)(3)" (citation omitted)).

28 U.S.C. § 2107(a) and Federal Rule of Appellate Procedure 4(a)(1) require that a notice of appeal be filed in a civil case "within 30 days after the judgment or order appealed from is entered." Fed. R.App. P. 4(a)(1)(A). Because the district court did not enter judgment on the order to compel arbitration, CCI had 180 days to appeal the order. *See* Fed. R.App. P. 4(a)(7)(A)(ii); *see also Bowles v. Russell,* ___ U.S. ___,

127 S.Ct. 2360, 2363, 168 L.Ed.2d 96 (2007) (stating that "the taking of an appeal within the prescribed time is mandatory and jurisdictional" (internal quotation marks omitted)).

CCI filed its first notice of appeal of the district court's order compelling arbitration on May 16, 2005, 287 days after the order was entered on August 2, 2004. This is well beyond the 180 days allowed by Federal Rule of Appellate Procedure 4(a)(7)(A)(ii). CCI's appeal of the district court's order compelling arbitration is untimely, and we lack jurisdiction to hear the appeal of that issue.

III

We next consider CCI's contention that the district court erred by confirming the arbitration award. We review a district court's confirmation of an arbitration award de novo. *See First Options of Chi., Inc. v. Kaplan,* 514 U.S. 938, 947-48, 115 S.Ct. 1920, 131 L.Ed.2d 985 (1995). CCI presents four arguments: (1) that the arbitrator lacked authority to arbitrate the equitable claims; (2) that the arbitrator exceeded the scope of his authority by issuing two permanent injunctions; (3) that the arbitrator's award is irrational; and (4) that the arbitrator's award violates CBPC § 16600. We address each argument in turn.

A

CCI submits that the arbitrator lacked authority to arbitrate because the arbitration clause in the Trademark Agreement grants state and federal courts an "exclusive" jurisdiction over equitable claims. We review the validity and scope of an arbitration clause de novo. *See Moore v. Local 569 of Int'l Bhd. of Elec. Workers,* 53 F.3d 1054, 1055-56 (9th Cir. 1995).

It is well established "that where the contract contains an arbitration clause, there is a presumption of arbitrability." *AT & T Techs., Inc. v. Commc'ns Workers of Am.,* 475 U.S. 643, 650, 106 S.Ct. 1415, 89 L.Ed.2d 648 (1986). "[A]n order to arbitrate the particular grievance should not be denied unless it may be said with positive assurance that the arbitration clause is not susceptible of an interpretation that covers the asserted dispute. Doubts should be resolved in favor of coverage." *Id.*; *see also Three Valleys Mun. Water Dist. v. E.F. Hutton & Co.,* 925 F.2d 1136, 1139 (9th Cir. 1991) ("Under the Federal Arbitration Act . . . any doubts concerning the scope of arbitrable issues should be resolved in favor of arbitration. . . ." (internal quotation marks and citation omitted)).

It is also well established that "[w]hen deciding whether the parties agreed to arbitrate a certain matter . . . courts generally . . . should apply ordinary state-law principles that govern the formation of contracts." *First Options,* 514 U.S. at 944, 115 S.Ct. 1920. Only disputes "that the parties have agreed to submit to arbitration" should be arbitrated. *Id.* at

943, 115 S.Ct. 1920; *see also Republic of Nicar. v. Standard Fruit Co.*, 937 F.2d 469, 478 (9th Cir. 1991) (stating that "[t]he scope of the [arbitration] clause must . . . be interpreted liberally").

Under California contract law, "if the language [of a contract] is clear and explicit, and does not involve an absurdity" the language must govern the contract's interpretation. Cal. Civ.Code § 1638. Moreover, when a contract is written, "the intention of the parties is to be ascertained from the writing alone, if possible." Cal. Civ.Code § 1639. "[I]f reasonably practicable" a contract must be interpreted as a whole, "so as to give effect to every part, . . . each clause helping to interpret the other." Cal. Civ.Code § 1641; *see also In re Affordable Hous. Dev. Corp.*, 175 B.R. 324, 329 (9th Cir. BAP 1994) ("California law provides that one phrase of a contract should not be interpreted so as to render another phrase of the contract meaningless."). However, "[i]f a contract is capable of two different reasonable interpretations, the contract is ambiguous," *Oceanside 84, Ltd. v. Fid. Fed. Bank*, 56 Cal.App.4th 1441, 1448, 66 Cal.Rptr.2d 487 (1997), and under the federal presumption in favor of arbitration, an arbitrator would have jurisdiction to arbitrate claims. *See AT & T Techs.*, 475 U.S. at 650, 106 S.Ct. 1415; *Three Valleys*, 925 F.2d at 1139.

Applying these principles, we conclude that the Trademark Agreement's arbitration clause grants the arbitrator authority over "all disputes" arising from the Trademark Agreement. There are three relevant

clauses in the arbitration agreement: (1) "[a]ll disputes relating to or arising under this Agreement . . . shall be resolved by arbitration"; (2) "[n]otwithstanding this agreement to arbitrate, the parties, in addition to arbitration, shall be entitled to pursue equitable remedies and agree that the state and federal courts shall have exclusive jurisdiction for such purpose and for the purpose of compelling arbitration and/or enforcing any arbitration award"; and (3) "[t]he prevailing party in any arbitration or action to enforce this Agreement . . . shall be entitled to its costs, including reasonable attorneys fees."

CCI contends that clause two is explicit that only state and federal courts, and not an arbitrator, have jurisdiction over equitable claims. Improv West counters that the second clause only carved out equitable claims "in aid of arbitration" to maintain the status quo between the parties pending arbitration, and that the second clause did not "supplant the arbitrator's authority" to decide all disputes under the Trademark Agreement.

A natural reading of clause two lends plausibility to Improv West's theory. The language "in addition to arbitration" in clause two suggests that arbitration still applies to all disputes, but that in addition, the parties are "entitled to pursue equitable remedies" before courts. If the parties intended to carve out an exception to arbitration for all equitable claims, they could have done so without the language "in addition to arbitration." Because the parties included this language, it is plausible and a permissible contract

interpretation that the equitable claims exception in clause two was intended to apply only to claims designed to maintain the status quo between the parties. Stated another way, it was a rational interpretation of the agreement to say that the arbitrator could decide both equitable and legal claims and that the provision for court jurisdiction on equitable matters was ancillary to the arbitration. Moreover, the Federal Arbitration Act, 9 U.S.C. § 3, provides a court with the ability to stay "trial of [an] action until such arbitration has been had," but it does not give a court the authority to issue equitable remedies, such as a temporary injunction, to maintain the status quo between the parties. Thus, it makes sense that if the parties wanted to give themselves the ability to seek temporary equitable remedies in courts while arbitration was ongoing, they would add such a clause to the arbitration agreement.

To support its interpretation, CCI cites language in clause three that awards costs and attorneys fees to "the prevailing party in any arbitration or action to enforce this Agreement," and phrasing in clause two that grants exclusive jurisdiction to courts for the "purpose" of "equitable remedies." These phrases, although consistent with CCI's reading of the arbitration agreement, are equally consistent with Improv West's interpretation. These phrases can support that the arbitration agreement lets the parties pursue equitable remedies in courts in aid of the arbitration, and gives those courts exclusive jurisdiction over, and

awards costs and attorneys fees to the prevailing party in, those actions.

We conclude that the arbitration agreement is "capable of two different reasonable interpretations." *Oceanside 84*, 56 Cal.App.4th at 1448, 66 Cal.Rptr.2d 487. Under the federal presumption in favor of arbitration, because the arbitration agreement is ambiguous, it should be interpreted as granting arbitration coverage over "all disputes" arising from the Trademark Agreement. *See AT & T Techs.*, 475 U.S. at 650, 106 S.Ct. 1415; *Three Valleys*, 925 F.2d at 1139. We hold that the arbitration agreement gave the arbitrator authority over all disputes, equitable and legal, and that he did not exceed his authority by arbitrating equitable claims.

B

We next address CCI's argument that the arbitrator exceeded the scope of his authority in issuing two permanent injunctions, which would provide grounds to vacate the arbitration award. *See Coutee v. Barington Capital Group, L.P.*, 336 F.3d 1128, 1134 (9th Cir. 2003); 9 U.S.C. § 10(a)(4).

In his partial arbitration award, the arbitrator (1) enjoined CCI and its Affiliates from opening or operating any other comedy clubs other than those open or under construction as of October 15, 2002 for the duration of the Trademark Agreement and (2) enjoined CCI and its Affiliates from changing the name on any of their current clubs until the

Trademark Agreement ended. CCI argues that because the Trademark Agreement defines Affiliates to include "family members, family members of shareholders, all collateral relatives,[10] former spouses, and all collateral relatives of former spouses," the permanent injunctions attempt to bind persons beyond the scope of the arbitrator's authority.[11] We agree.

A contract may bind non-parties such as an intended third party beneficiary, an agent, or an assignee. *See Benasra v. Marciano,* 92 Cal.App.4th 987, 991, 112 Cal.Rptr.2d 358 (2001). But generally arbitration clauses and contracts do not bind non-parties in the absence of such extraordinary relationships. As explained in *Buckner v. Tamarin,* 98 Cal.App.4th 140, 119 Cal.Rptr.2d 489 (2002): "The strong public policy in favor of arbitration does not extend to those who

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[10] Black's Law Dictionary defines "collateral relative" as "[a] relative who is not in the direct line of descent, such as a cousin." Black's Law Dictionary 1315 (8th ed. 2004).

[11] CCI raises this issue for the first time on appeal. Although we generally do "not consider an issue raised for the first time on appeal," we recognize three exceptions to that rule, by which we may invoke our discretion and review the issue: (1) where "review is necessary to prevent a miscarriage of justice or to preserve the integrity of the judicial process"; (2) where there is a change in the law creating a new issue; or (3) "when the issue presented is purely one of law and either does not depend on the factual record developed below, or the pertinent record has been fully developed." *Cold Mountain v. Garber,* 375 F.3d 884, 891 (9th Cir. 2004) (internal quotation marks and citation omitted). Here, we exercise our discretion and review CCI's argument under exceptions one and three.

are not parties to an arbitration agreement. . . ." *Id.* at 142, 119 Cal.Rptr.2d 489 (internal quotation marks omitted); *see also NORCAL Mut. Ins. Co. v. Newton,* 84 Cal.App.4th 64, 76, 100 Cal.Rptr.2d 683 (2000) ("The common thread . . . is the existence of an agency or similar relationship between the nonsignatory and one of the parties to the arbitration agreement. In the absence of such a relationship, courts have refused to hold nonsignatories to arbitration agreements.").

Here, the arbitrator's injunctions, relying on the Trademark Agreement's definition of Affiliate, seek to prevent people such as cousins of former spouses of CCI partners from opening or operating any comedy club within the United States until 2019. These collateral relatives are not in privity with the Trademark Agreement signatories, or with CCI shareholders, partners, or "persons." As an example, it is not reasonable to preclude from gainful competition in the comedy club sphere relatives of ex-spouses of the CCI principals who were not in an agency relationship with those principals. Similarly, the arbitrator did not have authority to enjoin a non-party grandmother of a CCI partner from opening a restaurant with live stand-up comedy performance until the year 2019. Under California law, the arbitrator lacked the authority to enjoin these non-parties from owning or operating comedy-related businesses or restaurants.

Improv West contends that Federal Rule of Civil Procedure 65(d) ("Rule 65(d)") establishes that an injunction may bind not only parties to the action but

also "their officers, agents, servants, employees, and attorneys, and [upon] those persons in active concert or participation with them." Fed.R.Civ.P. 65(d). However, the wholesale inclusion of relatives as Affiliates in the Trademark Agreement's covenant not to compete, and the injunctions in the arbitrator's partial award, go well beyond binding CCI's agents, employees, or people in active concert or participation with it as Rule 65(d) permits. Indeed, as mentioned above, § 9.j., by its own terms, reaches beyond persons with an agency or assignee relationship with CCI partners, and literally purports to bind a CCI "person's" ex-wife and his ex-wife's cousins, nephews, uncles, and aunts. The text of Rule 65(d) is exclusive, stating that an injunction can permissibly bind "only" those persons listed in Rule 65(d). Rule 65(d) does not list collateral relatives of former spouses, or even grandparents, as potential non-parties who may be bound by a contract or an arbitration award. And we do not think it is a proper use of equitable power to restrain all such persons.

Moreover, precluding non-party relatives or ex-spouses from opening or operating improv-comedy-related businesses or restaurants violates CBPC § 16600. CBPC § 16600 provides, in relevant part, that "every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void." *Id.* This is a codification of "the general rule in California [that] covenants not to compete are void." *Hill Med. Corp. v. Wycoff*, 86 Cal.App.4th 895, 901, 103 Cal.Rptr.2d 779

(2001). By restricting non-party relatives and ex-spouses from engaging in a lawful business, the injunctions, with respect to those persons, exceed the arbitrator's authority.

We conclude that the arbitrator acted beyond the scope of his authority as a matter of California law in attempting to bind all of CCI's Affiliates, including relatives who were not parties to the Trademark Agreement, and thus could not be bound by its provisions. If an arbitrator exceeded the scope of his authority in issuing an award, and that award is divisible, we may vacate part of the award and leave the remainder in force. *See Lyle v. Rodgers,* 18 U.S. (5 Wheat.) 394, 409, 5 L.Ed. 117 (1820) (Marshall, C.J.) (stating that "an award may be void in part, and good for the residue"); *Barington Capital,* 336 F.3d at 1134 ("A federal court may vacate an arbitration award, or a portion thereof, if the arbitrators acted beyond their authority."). We therefore conclude that the district court should vacate the arbitration award insofar as it enjoins any of CCI's Affiliates who are not connected to the principals of CCI as, by analogy to Rule 65(d), "their officers, agents, servants, employees, and attorneys, and [upon] those persons in active concert or participation with them." We hold that a narrowing of the restrictive covenant on Affiliates is required by CBPC § 16600 and the principle that non-parties generally are not bound in arbitration. Such non-parties can only be restrained to the extent permitted by Rule 65(d).

C

CCI next contends that the partial arbitration award is irrational because it simultaneously revokes CCI's license to open Improv clubs and prevents CCI from opening or operating any other comedy clubs anywhere in the United States until 2019 or the termination of the Trademark Agreement.

Review of an arbitration award is "'both limited and highly deferential'" and the arbitration award "may be vacated only if it is 'completely irrational' or 'constitutes manifest disregard of the law.'" *Poweragent Inc. v. Elec. Data Sys. Corp.*, 358 F.3d 1187, 1193 (9th Cir. 2004) (quoting *Barington Capital*, 336 F.3d at 1132-33). We have not elaborated on what "completely irrational" means, but the Eighth Circuit has persuasively indicated that the "completely irrational" standard is extremely narrow and is satisfied only "where [the arbitration decision] fails to draw its essence from the agreement." *Hoffman v. Cargill Inc.*, 236 F.3d 458, 461-62 (8th Cir. 2001). This is a view that we adopt.

Under the partial arbitration award, CCI lost its exclusive right to open and operate any new Improv clubs using Improv West's license. And because the arbitrator found the § 9.j. covenant not to compete of the Trademark Agreement valid, CCI also lost the right to open and operate any other new comedy clubs or restaurants under any other license or name anywhere in the contiguous United States as long as the Trademark Agreement remained in effect. Thus,

apart from allowing CCI to continue to operate the handful of Improv clubs that it had already opened or purchased, *see supra* note 4, the arbitrator's ruling put CCI out of the comedy club business.

CCI argues that if it has lost all licensing rights, then there is no longer any licensing agreement. Both parties agree that if the Trademark Agreement is no longer in effect then the § 9.j. covenant not to compete similarly would no longer be in effect, and the arbitrator's award would be considered irrational.

However, as Improv West correctly asserts, Improv West did not cancel the Trademark Agreement, neither party sought to terminate the Trademark Agreement as part of the underlying actions, and nothing in the parties' submissions, the arbitrator's rulings, or the district court's orders suggest that the Trademark Agreement was cancelled. Instead, CCI was still bound under other sections of the Trademark Agreement to pay Improv West royalties on the seven Improv clubs it still operated at the conclusion of the arbitration.

A breach by a party to a contract does not in itself cancel the contract.[12] Cancellation of a contract occurs

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[12] The general rule is that if the breach is a material breach, it may give grounds for the non-breaching party to cancel the contract, *see Rano v. Sipa Press, Inc.*, 987 F.2d 580, 586 (9th Cir. 1993), but if the breach is a partial breach, the non-breaching party's remedy is for damages. *See Postal Instant Press, Inc. v. Sealy*, 43 Cal.App.4th 1704, 1708-09, 51 Cal.Rptr.2d 365 (1996).

when "either party puts an end to the contract for breach by the other."[13] *See* Bernard E. Witkin, *Summary of California Law* § 925 (10th ed. 2005) (internal quotation marks omitted); *see also* Restatement (Second) of Contracts § 274 (1979); 13 Arthur Linton Corbin, *Corbin on Contracts* § 67.2 (Rev. ed. 2003).

At the time of arbitration, Improv West had not cancelled, nor had the parties terminated, the contract. In the arbitration Improv West did not seek to terminate the contract. By the arbitrator's own award, the arbitrator did not modify the party's contractual relationship, including the required payment of royalties, on the seven Improv clubs that CCI had opened or bought and was running. Further, per the arbitrator's award, the covenant not to compete ends when the Trademark Agreement ends. CCI will then be able to open up other non-Improv clubs.

CCI entered into the Trademark Agreement with knowledge that there would be consequences if it defaulted on the development schedule in § 12.a. of the Trademark Agreement. An arbitrator could rationally decide that the § 9.j. covenant not to compete was valid to some degree, while at the same time upholding

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[13] "'Termination occurs when either party pursuant to a power created by agreement or law puts an end to the contract otherwise than for its breach.'" *See* Witkin, *Summary of California Law* § 925 (internal quotation marks omitted).

Improv West's remedy to end CCI's exclusive license rights to open other Improv clubs.

The basic outline of what the arbitrator did, terminating an exclusive right to open Improv clubs nationwide, because of contractually inadequate performance contrary to the agreed schedule, while keeping in force the restrictive covenant makes sense insofar as CCI should not have an exclusive license on Improv clubs absent complying with designated performance. And so long as CCI was running some Improv clubs, a restrictive covenant to some degree could protect Improv West from damage caused by improper competition. Because we cannot say that there is no basis in the record for the arbitrator's decision, we hold that the arbitrator's award is not completely irrational. *See NF & M,* 524 F.2d at 760.

D

Finally, we address CCI's claim that the partial arbitration award should be vacated because it is in violation of CBPC § 16600. CCI argues that the arbitrator's validation of § 9.j. is in manifest disregard of the law. We have stated that for an arbitrator's award to be in manifest disregard of the law, "[i]t must be clear from the record that the arbitrator [] recognized the applicable law and then ignored it." *Mich. Mut. Ins. Co. v. Unigard Sec. Ins. Co.,* 44 F.3d 826, 832 (9th Cir. 1995).

Under CBPC § 16600, it is well established that broad covenants not to compete are void unless they

involve a situation where "a person sells the goodwill of a business [or] where a partner agrees not to compete in anticipation of dissolution of a partnership," *see Kelton v. Stravinski,* 138 Cal.App.4th 941, 946, 41 Cal.Rptr.3d 877 (2006), CBPC §§ 16601, 16602, or "they are necessary to protect trade secrets." *Alliance Payment Sys. v. Walczer,* 61 Cal.Rptr.3d 789, 801 (2007). Neither party alleges any of the above exceptions apply in this case.

The majority of cases interpreting CBPC § 16600 under California law deal with post-contract or post-employment covenants not to compete. *See e.g., Alliance Payment Sys.,* 152 Cal.App.4th 620, 629, 61 Cal.Rptr.3d 789, 797; *Thompson v. Impaxx, Inc.,* 113 Cal.App.4th 1425, 1427-29, 7 Cal.Rptr.3d 427 (2003). In this case, the Trademark Agreement has not been terminated or canceled; rather the contractual relationship between CCI and Improv West is ongoing and § 9.j. can be viewed as an in-term covenant not to compete.[14]

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[14] Because Improv West revoked CCI's rights to the Improv marks for almost the entire contiguous United States, the Improv West-CCI licensing relationship has ended except as to the existing Improv clubs. Bearing this in mind, it might be possible to view § 9.j., with respect to the majority of the United States, functionally as if it were a post-term covenant not to compete, and with respect to the Improv clubs that CCI continues to operate, as an in-term covenant not to compete. However, because the contract relationship has not been canceled, and continues for the existing Improv clubs operated by CCI, we think it more appropriate conceptually to analyze § 9.j. nationwide

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We have not found, and the parties do not cite, any Ninth Circuit or California cases holding that in-term covenants not to compete of any scope are necessarily valid. There are, however, cases addressing in-term covenants not to compete, and we discuss several of those cases here because of the limitations that we believe they impose under § 16600, even in the context of a continuing covenant not to compete.

Most significant to our analysis is *Dayton Time Lock Service, Inc. v. Silent Watchman Corp.*, 52 Cal.App.3d 1, 124 Cal.Rptr. 678 (1975), in which the California Court of Appeal, addressed an in-term "exclusive dealing clause" in a franchise agreement. *Id.* at 6, 124 Cal.Rptr. 678. The exclusive dealing clause provided in part that "during the life of this contract, . . . [Dayton Time Lock Service, Inc. ("DTLS")] will not sell or lease any locks, devices or service of any kind in competition with the business of[Silent Watchman Corp. ("SW")], or use any time recording lock not supplied by [SW] under this agreement." *Id.* DTLS argued that this anti-competitive provision, along with a separate post-franchise covenant not to compete, violated state and federal antitrust laws. *Id.* The California Court of Appeal first noted that SW conceded that the post-term covenant not to compete violated the state antitrust law CBPC § 16600. *Id.* Next, the court specifically addressed

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as an in-term covenant not to compete, while considering CCI's limited continuing use of the Improv marks as pertinent to the scope of § 9.j.

whether the in-term covenant not to compete was valid. In this context, the court held that "[e]xclusive-dealing contracts are not necessarily invalid," but "[t]hey are proscribed when it is probable that performance of the contract will foreclose competition in a substantial share of the affected line of commerce." *Id.* In doing so, *Dayton Time Lock* imposed the standards analogous unto federal anti-trust law when interpreting § 16600. *See id.* (citing *Standard Oil Co. v. United States*, 337 U.S. 293, 314, 69 S.Ct. 1051, 93 L.Ed. 1371 (1949)).[15]

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[15] Similar to *Dayton Time Lock*, the District Court for the Northern District of Illinois in *Great Frame Up Systems, Inc. v. Jazayeri Enterprises*, 789 F.Supp. 253 (N.D.Ill.1992), stated, while interpreting California law on CBPC § 16600, that California courts support the position "that preventing defendants from competing only during the term of [an] existing franchise agreement, would not be void." *Id.* at 255. The court reasoned, however, that the in-term contractual provisions still cannot prevent a party from engaging in an entire profession, business or trade. *See id.* at 256.

Finally, in *General Commercial Packaging, Inc. v. TPS Package Engineering, Inc.*, 126 F.3d 1131 (9th Cir. 1997) (per curiam), we addressed a covenant not to compete in a general contractor-subcontractor context. General Commercial Packaging ("GCP"), a packing and crating service, subcontracted with TPS for TPS to provide packing and crating services for Walt Disney Company, one of GCP's major customers. *Id.* at 1132. TPS and GCP signed an in-term and post-term covenant not to compete, which provided that TPS would not work directly for, or solicit business from, Disney or any other company GCP introduced to TPS. *Id.* Although from the opinion it is unclear whether TPS and GCP's business relationship dissolved, we nonetheless upheld the covenant not to compete because it only

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In *Kelton v. Stravinski,* the California Court of Appeal addressed another in-term covenant not to compete, this time in a partnership context. 138 Cal.App.4th at 945, 41 Cal.Rptr.3d 877.[16] The court held that even though the Kelton-Stravinski covenant not to compete was during an ongoing business relationship, it violated CBPC § 16600 and was unenforceable. *Kelton,* 138 Cal.App.4th at 947, 41 Cal.Rptr.3d 877. The court in *Kelton* limited *Dayton Time Lock* to franchise agreements. However, in stressing CBPC § 16600's strong policy against anti-competition agreements, the court reaffirmed that in the franchise context, § 16600 prohibits an in-term covenant not to compete that "will foreclose competition in a substantial share of the affected line of commerce." *Kelton,* 138 Cal.App.4th at 947-48, 41 Cal.Rptr.3d 877.

Dayton Time Lock and *Kelton* make evident that under CBPC § 16600 an in-term covenant not to compete in a franchise-like agreement will be void if it "foreclose[s] competition in a substantial share" of a business, trade, or market. *Dayton Time Lock,* 52 Cal.App.3d at 6, 124 Cal.Rptr. 678; *Kelton,* 138

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limited the subcontractor's "access to a narrow segment of the packing and shipping market." *Id.* at 1134. Because the covenant not to compete left a substantial portion of the packing and shipping market open to TPS, we held that the covenant not to compete was enforceable. *Id.*

[16] The covenant not to compete provided that Kelton agreed not to operate any warehouses and Stravinski agreed not to design or build any warehouses. *Kelton,* 138 Cal.App.4th at 945, 41 Cal.Rptr.3d 877.

Cal.App.4th at 948, 41 Cal.Rptr.3d 877. Also, California courts are less willing to approve in-term covenants not to compete outside a franchise context because there is not a need "to protect and maintain [the franchisor's] trademark, trade name and goodwill." *Kelton,* 138 Cal.App.4th at 948, 41 Cal.Rptr.3d 877. Keeping in mind these settled principles of California law that were set forth in *Dayton Time Lock* and reaffirmed by *Kelton,* which principles were expressly before the arbitrator, we proceed to evaluate whether the arbitrator's decision was in manifest disregard of the law.

CCI's "business" is operating full-service comedy clubs. CCI currently operates at least seven Improv clubs. *See supra* note 4. As interpreted by the arbitrator, the § 9.j. covenant not to compete applies geographically to the contiguous United States, and does not end until 2019. Thus, the covenant not to compete has dramatic geographic and temporal scope. Combined with the arbitrator's ruling that CCI forfeited its rights to use the Improv marks license in any new location, the practical effect of the arbitrator's award enforcing § 9.j. is that for more than fourteen years the entire contiguous United States comedy club market, except for CCI's current Improv clubs, is off limits to CCI. This "foreclose[s] competition in a substantial share" of the comedy club business. *Dayton Time Lock,* 52 Cal.App.3d at 6, 124 Cal.Rptr. 678; *see also Gen. Commercial,* 126 F.3d at 1134 (reasoning that a contract can not place "a substantial segment of the market off limits").

In ruling on CCI's motion for reconsideration the arbitrator reasoned as follows:

> *Dayton Time Lock* . . . is inapplicable. That case involved an attack on an exclusive dealing contract under the *antitrust laws.* The cases cited in the portion of the *Dayton* opinion . . . involved validity of exclusive dealing contracts under the federal Sherman Act. The type of "rule of reason" analysis applied in antitrust cases – involving the determination whether a particular agreement unreasonably restricts competition generally in a defined geographic and product market – is not applicable to a determination of illegality under Section 16600. California's antitrust statute, the Cartwright Act, is separate and distinct from § 16600 of the Business & Professions Code.

The arbitrator's award, while aware of *Dayton Time Lock,* interpreted it in a way to render it inapplicable to this case. However, as we have explained, *Dayton Time Lock* established that under CBPC § 16600 in-term covenants not to compete cannot prevent a party from engaging in its business or trade in a substantial section of the market. The arbitrator's award effectively quarantines CCI from engaging in its business in forty-eight states until 2019 and does not follow well-established California law. *See Dayton Time Lock,* 52 Cal.App.3d at 6, 124 Cal.Rptr. 678; *Great Frame Up Sys.,* 789 F.Supp. at 256; *see also Gen. Commercial,* 126 F.3d at 1134. Even under the permissive standard with which we view arbitral

decisions, the economic restraint of § 9.j. on competition is too broad to be countenanced in light of the clear prohibition of § 16600, as interpreted by the California courts. The grounds given by the arbitrator for disregarding *Dayton Time Lock* are fundamentally incorrect.[17] We hold that the arbitrator's ruling that § 9.j. is a valid covenant not to compete ignores CBPC § 16600 and thus is in manifest disregard of the law. To comply with § 16600, the covenant not to compete must be more narrowly tailored to relate to the areas in which CCI is operating Improv clubs under the license agreement.

However, we do not void the entire in-term covenant not to compete. *Kelton* stressed that the franchisor-franchisee context was different from an employment or partnership context. CCI's relationship with Improv West is in essence a franchise

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[17] First, the arbitrator reasoned that *Dayton Time Lock* was inapplicable because it involved an assessment of antitrust laws. However, *Dayton Time Lock* made clear that it was assessing the requirements of CBPC § 16600, and its plain language applied standards from antitrust cases in aid of its application of § 16600, which was an issue under review. Second, the arbitrator thought § 16600 was inapplicable because California in the Cartwright Act had a separate antitrust statute distinct from § 16600, but the arbitrator's notice of the Cartwright Act does not detract from what *Dayton Time Lock* held in assessing an issue under § 16600, which *Dayton Time Lock* itself characterized as a state antitrust law. Both § 16600 and the Cartwright Act deal with antitrust and competition policy and it was not in the province of the arbitrator to make a "ruling" about § 16600 that was so at odds with what the California Court of Appeal stated in *Dayton Time Lock*.

agreement as CCI contracted with Improv West to use Improv West's trademarks and open comedy clubs modeled on Improv West's clubs. *See Kelton,* 138 Cal.App.4th at 947-48, 41 Cal.Rptr.3d 877 (discussing franchising under California law). Assessing the requirements of California law, we weigh CCI's right to operate its business against Improv West's interest "to protect and maintain its trademark, trade name and goodwill." *Id.* at 948, 41 Cal.Rptr.3d 877. This balance tilts in favor of Improv West with regard to counties where CCI is operating an Improv club, but under the restraint of CBPC § 16600 California law does not permit an arbitrator to foreclose CCI's competition in opening comedy clubs throughout the United States.

Therefore, we hold that the district court should vacate the arbitrator's injunctive relief as to any county where CCI does not currently operate an Improv club, but uphold § 9.j. in those counties where CCI currently operates Improv clubs. *See Armendariz v. Found. Health Psychcare Servs., Inc.,* 24 Cal.4th 83, 123, 99 Cal.Rptr.2d 745, 6 P.3d 669 (2000) (stating that "overbroad covenants not to compete may be restricted temporally and geographically" (citing *Gen. Paint Corp. v. Seymour,* 124 Cal.App. 611, 614-15, 12 P.2d 990 (1932))). Nationwide CCI may open and operate non-Improv comedy clubs in all those counties where it does not currently operate an Improv club. However, CCI may not open or operate any non-Improv clubs in those counties where it currently owns or operates Improv clubs.

IV

In sum, we hold that CCI's appeal of the district court's order compelling arbitration is untimely and we lack jurisdiction to consider that issue. We conclude (1) that the arbitrator properly arbitrated the equitable claims; (2) that the arbitrator's award is not completely irrational; (3) that the arbitrator exceeded the scope of his authority by enjoining the non-party Affiliates; and (4) that the arbitrator's award violates CBPC § 16600. We vacate the district court's order confirming the arbitration award and remand to the district court with instructions to vacate the Partial Final Arbitration Award insofar as it enjoins CCI's Affiliates, unless they are agents or otherwise acting for CCI, and to the extent it prevents CCI from opening or operating non-Improv clubs in counties in which CCI does not now operate or own an Improv club.[18]

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[18] Improv West contends, without opposition from CCI, that the arbitration section in the Trademark Agreement entitles it to attorneys' fees and costs associated with this appeal and the confirmation proceedings of the arbitration awards. The arbitration agreement does award "costs, including reasonable attorneys fees" to "[t]he prevailing party." And we have upheld such an award for a party who successfully confirmed an arbitration award. *See A.G. Edwards & Sons, Inc. v. McCollough*, 967 F.2d 1401, 1404 (9th Cir. 1992) (per curiam) (ordering the arbitration award confirmed, and awarding the prevailing party "attorneys' fees in accordance with the agreements between the parties"). However, in this case Improv West partially confirmed the arbitrator's award, but we have modified the scope of that award. We hold that Improv West is entitled to costs and fees

(Continued on following page)

AFFIRMED IN PART, VACATED IN PART, and REMANDED to the district court for further proceedings consistent with this opinion.

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only with regard to its work on the issues on which it prevailed. We remand the issue of costs and attorneys' fees to the district court to determine the amount of reasonable attorneys' fees and costs that should be awarded to Improv West insofar as it prevailed.

APPENDIX E

United States District Court for
the Central District of California

Case No. CV-03-8134 WMB (AJWx)

COMEDY CLUB, INC.,
a Louisiana corporation; Al Copeland
Investments, Inc., a Louisiana corporation,

Plaintiffs

v.

IMPROV WEST ASSOCIATES,
a California Limited Partnership;
California Comedy, Inc., a California corporation,

Defendants

April 12, 2005

ORDER CONFIRMING ARBITRATION AWARD

I. FACTS

Defendant Improv West ("Improv West") is the founder of the Improv Comedy Club on Melrose Avenue and the creator and owner of the Improv and Improvisation trademarks ("Improv marks"). Plaintiff Comedy Club, Inc. ("CCI") owns and operates restaurants and comedy clubs nationwide. In 1999, CCI and Improv entered into an Asset Purchase and Sale Agreement ("Asset Agreement") and a Trademark

License Agreement ("Trademark Agreement"). The Asset Agreement transferred ownership of the Melrose Improv Club to CCI. The Trademark Agreement provided for the following: (1) CCI was authorized to open additional Improv clubs and was granted an exclusive nationwide license to use the Improv marks in connection with these new clubs; (2) pursuant to a development schedule, CCI was to open four Improv clubs in 2001, four Improv clubs in 2002, and four Improv clubs in 2003; (3) CCI was prohibited from opening non-Improv comedy clubs; and (4) any dispute arising under the agreement was to be resolved through arbitration.

When CCI failed to open eight Improv clubs by 2002, Improv West sent CCI a letter holding CCI in default of the Trademark Agreement and "reserving" (i.e. withdrawing) CCI's rights to construct additional Improv clubs or use the Improv marks in connection with these new clubs. Improv West further informed CCI that Improv West intended to begin opening its own Improv clubs.

B. Procedural History

On November 7, 2003, after receiving Improv West's letter, CCI filed a complaint seeking declaratory relief. CCI sought a declaration that the covenant not to build non-Improv comedy clubs was void pursuant to Cal. Bus. & Prof. Code §16600. CCI also sought an affirmation that CCI had the exclusive right to open Improv clubs and that CCI's failure to

meet the development schedule did not cause it to forfeit this right.

On March 5, 2004, Improv West made a demand for arbitration, alleging that CCI breached the Trademark Agreement by failing to meet the established schedule of opening eight clubs by 2002. Improv West's demand sought to establish its rights under the Trademark Agreement and to recover $150,000 in damages. Improv West amended this demand on April 6, 2004, to allege additional breaches of the Trademark Agreement.[1]

CCI thereafter amended its complaint to seek equitable as well as declaratory relief. The amended complaint alleged that Improv West had authorized third parties to infringe upon territory reserved to CCI under the Trademark Agreement. In connection with these new allegations, CCI sought a permanent injunction prohibiting Improv West from opening, or authorizing third parties to open, any clubs in CCI's exclusive territory, and requiring Improv West to disgorge any profits resulting from its breach of the Trademark Agreement.

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[1] According to the amended demand, CCI breached the Trademark Agreement by failing to meet the development schedule, failing to furnish Improv West with certified and complete financial statements, and commencing an action for declaratory judgment rather than arbitrating. CCI also anticipatorily breached the agreement by announcing their intent to change the names of their existing Improv clubs and announcing their intent to open new clubs under different names.

Improv West moved to dismiss CCI's complaint for declaratory judgment, or, in the alternative, stay CCI's action pending arbitration. CCI opposed the motion, contending that the parties arbitration agreement contained a carve-out for actions seeking equitable remedies, and that its complaint was such an action. On July 28, 2004, the Court issued an order compelling the parties to arbitrate their dispute. Following the Court's ruling, the parties arbitrated before Richard R. Mainland.

During arbitration, the parties filed cross-motions for summary judgment on the two issues raised in CCI's complaint for declaratory judgment: (1) whether the non-compete clause was null and void, and (2) whether CCI's failure to open the requisite number of Improv clubs constituted a forfeit of its exclusivity rights under the Trademark Agreement. On September 7, 2004, the arbitrator issued an order ruling that the non-compete clause was valid and that CCI had forfeited its exclusivity rights. Shortly thereafter, CCI filed a motion for reconsideration in regards to the arbitrator's ruling on the non-compete clause. The arbitrator denied the motion.

On November 8, 2004, CCI filed a second amended counterclaim in which it sought repayment of certain license fees that it had pre-paid to Improv West. The counterclaim also sought an accounting and remuneration of amounts underpaid in regards to Improv West's alleged agreement to pay royalties to CCI for entertainment booking handled by CCI for Improv West.

On February 28, 2005, the arbitrator entered a partial final arbitration award stating, in part, that: (1) CCI had forfeited its right to use and license the Improv trademark in connection with any clubs that were not open or under construction as of October 15, 2002; (2) Improv West was entitled to open or license new Improv clubs in territory that had been exclusively licensed to CCI; (3) during the duration of the Trademark Agreement, which runs until 2019, CCI was enjoined from operating any comedy clubs other than those that were open or under construction prior to October 15, 2002, or any club authorized by Improv West; (4) CCI was enjoined from changing the name of any of its current stand-up clubs until 2019; (5) Improv West was entitled to attorney's fees and costs. The award did not "decide [CCI's] booking-fee claim . . . which remains pending." *See* Arb. Rec., Ex. 126 at 3. The arbitrator characterized the booking-fee claim as "a separate and independent claim." *Id.* On March 4, 2005, Improv West filed a motion to confirm the arbitration award. CCI opposes the motion.

II. DISCUSSION

CCI argues that the arbitration award should not be confirmed for four reasons: (1) the issues raised in arbitration were equitable in nature and therefore were not arbitrable; (2) the booking-fee claim has not been resolved, thereby rendering the arbitrator's award non-final; (3) the arbitrator's decision regarding the non-compete clause was irrational or evidenced a manifest disregard for the law; (4) the

arbitrator engaged in misconduct by sua sponte awarding injunctive relief.

A. Did the arbitrator have jurisdiction to hear equitable claims

CCI argues that the arbitrator did not have jurisdiction to hear the claims that were before it. Section 22 of the Trademark Agreement says that:

> All disputes arising under this Agreement . . . shall be revised by arbitration in Los Angeles, California . . . Notwithstanding this agreement to arbitrate, the parties, in addition to arbitration, shall be entitled to pursue equitable remedies and agree that the state and federal courts shall have exclusive jurisdiction for such purpose.

CCI contends that during the arbitration, the parties sought and were awarded remedies that were entirely equitable in nature. Therefore, CCI believes that under the terms of section 22, these claims could only be properly adjudicated in state or federal court.

CCI raised this exact same argument in opposition to Improv West's motion to compel arbitration. This Court rejected the argument, ruling that:

> [The] "equitable remedies" language in the arbitration provision should be interpreted to be limited to interim judicial relief necessary to preserve the status quo or judicial relief necessary to enforce an arbitrator's decision. As neither of CCI's

> requested relief, a permanent injunction or disgorgement of profits, constitutes interim relief or relief necessary to enforce an arbitrator's decision, arbitration of CCI's claim is appropriate.

See Order Sending Parties to Arbitration at 9 (July 28, 2004). The Court listed three reasons in support of its decision: (1) "this result is most consistent with the language of the provision and the intent of the parties," *id.*; (2) "Federal policy . . . supports sending the parties to arbitration," *id.*; (3) "exercising judgment over CCI's claims for a permanent injunction and disgorgement of profits would create parallel and distinctive proceedings and carry the risk of inconsistent adjudications," *id.* at 10.

CCI argues that the Court should reconsider its order of July 28th in light of subsequent actions taken by Improv West. At the time the Court entered its July 28th ruling, Improv West was seeking monetary damages and injunctive relief. CCI alleges that during the arbitration, Improv West abandoned its claims for monetary damages, meaning that all of its remaining claims were equitable in nature. CCI contends that Improv West's actions have undermined the Court's third reason for compelling arbitration; i.e., that to do otherwise would result in duplicate proceedings.

Even assuming that neither party presented any legal claims presented during arbitration,[2] CCI's argument overlooks the two additional reasons the Court gave in support of its decision to send the parties to arbitration. Specifically, the Court found that compelling arbitration was appropriate based on (1) the plain language of the arbitration agreement, and (2) federal policy. The Court affirms its prior ruling. Because CCI was not seeking interim relief or relief necessary to enforce the arbitrator's decision, arbitration of CCI's claims was appropriate.

B. Can the award be confirmed before the booking-fee issue is decided

CCI contends that the arbitration award cannot be confirmed because the arbitrator has not yet decided the booking-fee issue. In its second amended counterclaim, CCI claimed that Improv West owed it a booking-fee with respect to six Improv clubs operated by Improv West and/or its licensees. The arbitrator specifically declined to rule on the booking-fee issue in its partial final arbitration award and the issue is still pending.

CCI contends that this Court cannot confirm the arbitration award until every claim submitted to

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[2] Improv West alleges that CCI itself sought monetary damages in the arbitration. To the extent that this is true, it completely undermines CCI's argument because it means that both legal and equitable claims remained in the case.

arbitration has been decided. As stated by the Sixth Circuit, "[t]his argument overlooks the rule that an interim award that finally and definitively disposes of a separate independent claim may be confirmed notwithstanding the absence of an award that finally disposes of all the claims that were submitted to arbitration." *Island Creek Coal Sales Co. v. City of Gainsville*, 729 F.2d 1046, 1049 (6th Cir. 1984) (citing *Eurolines Shipping Co. v. Metal Transport Corp.*, 491 F.Supp. 590, 592 (S.D.N.Y. 1980), *Sperry Int'l Trade. Inc. v. Gov't of Israel*, 689 F.2d 301 (2d Cir. 1982); *Sportswear Garment Workers' Union, Local 246 v. Evans Mfg Co.*, 318 F.2d 528 (3d Cir. 1963)). This rule finds support in other circuits. *See Metallgesellschaft AG v. M/V Capitan Constante*, 790 F.2d 280, 283 (2d Cir. 1986); *see also Hart Surgical. Inc. v. Ultracision, Inc.*, 244 F.3d 231 (1st Cir. 2001).

The Ninth Circuit has never reviewed the rule enunciated by the Sixth Circuit. However, CCI argues that two Ninth Circuit cases have effectively rejected that holding. In the first case, *Millmen Local 550 v. Wells Exterior Trim*, 828 F.2d 1373 (9th Cir. 1987), a labor arbitrator determined the issue of liability in favor of the petitioner, but reserved jurisdiction to determine the remedy in some future proceeding. The Ninth Circuit held that the arbitrator's decision was not reviewable because "an arbitration award that postpones the determination of a remedy [is not] a 'final and binding award.'" *Id.* at 1376. In the second case, *Sunshine Mining Co. v. United Steelworkers*, 823 F.2d 1289 (9th Cir. 1987), an arbitrator premised

an award on the outcome of a psychiatric test. The psychiatric test was never completed, but the district court reviewed the award and entered judgment. The Ninth Circuit ruled that the district court had erred, holding that "inasmuch as the psychiatric examination ordered by the arbitrator in this case was never conducted, the instant award is incomplete . . . The case must be remanded to arbitration for a final and complete determination of the issue submitted." *Id.* at 1295. Neither *Wells Exterior* nor *Sunshine* involved claims that were finally disposed of in the arbitration: in the former case no remedy was issued and in the latter case the predicate event that was to trigger the arbitration award never occurred. In this case, the arbitrator simply severed one claim, which will be resolved at a later date.

Although the Ninth Circuit has never specifically endorsed the rule enunciated by the Sixth Circuit, this Court believes it is a sound one. Furthermore, CCI has not cited, nor is this Court aware of, any case that has rejected the rule. The Court therefore holds that the arbitrator's partial final award may be confirmed despite the fact that it did not resolve every single issue raised in the arbitration.

C. Was the arbitrator's decision irrational

CCI argues that the arbitrator's refusal to invalidate the non-compete clause must be set aside. Under the Federal Arbitration Act, a court's review of an arbitrator's decision is extremely narrow. As stated by

the Ninth Circuit, when reviewing an arbitration award, courts must remain

> mindful that confirmation is required even in the face of erroneous misinterpretations of law. It is not even enough that the [arbitrator] may have failed to understand or apply the law. An arbitrator's decision must be upheld unless it is completely irrational, or it constitutes a manifest disregard of law.

Todd Shipyards Corp. v. Cunard Line, 943 F.2d 1056, 1059-60 (9th Cir. 2003). In order to overturn an arbitrator's award, "[i]t must be clear from the record that the arbitrator recognized the applicable law and then ignored it." *Mich. Mut. Ins. Co. v. Unigard Sec. Ins. Co.*, 44 F.3d 826, 832 (9th Cir. 1995).

In this case the arbitrator found that the parties non-compete agreement did not violate Cal. Bus. & Prof. Code §16600, which provides, that "except as provided in this chapter, every contract by which anyone is retrained from engaging in a lawful profession, trade or business of any kind is to that extent void." The arbitrator began by noting that "it has been held that Section 16600 applies only to covenants preventing one from engaging in an entire business, trade or profession." *See* Pl.'s Reply, Ex. A at 5 (citing *Campbell v. Bd. of Trs. of Stanford Univ.*, 817 F.2d 499, 502 (9th Cir. 1987)). The arbitrator then interpreted the CCI/Improv West Trademark Agreement to mean that the non-compete clause would end when the Agreement expired. Based on this interpretation, the arbitrator ruled that the non-compete

covenant was enforceable because it was "in-term," meaning that it only applied during the duration of the Trademark Agreement and was therefore only a partial restraint. This outcome finds support in the case law. As one Illinois district court found, "California courts draw a distinction between in-term restrictions and post-term restrictions, finding the latter and not the former void under §16600. Using this reasoning, the restriction at issue here, preventing defendants from competing only *during* the term of the existing franchise agreement, would not be void." *Great Frame Up Sys., Inc. v. Jazayeri Enters., Inc.*, 789 F.Supp 253, 255-56 (N.D. Ill. 1992).

After the arbitrator issued its ruling, CCI filed a motion for reconsideration, arguing that courts should apply a "rule of reason" analysis when evaluating the enforceability of a non-compete clause. The arbitrator ruled that California courts have rejected a "rule of reason" in the context of non-competes. This ruling also finds support in the case law. *General Commercial Packaging, Inc. v. TPS Package Eng'g, Inc.*, 126 F.3d 1131, 1133 (9th Cir. 1997) ("the [Ninth Circuit has] disclaimed a rule of reason"). The arbitrator in this case spent several pages explaining its position in regards to the non-compete clause. Regardless of whether the arbitrator's ruling was, as a

matter of law, correct or incorrect, it was not irrational.[3]

D. Did the arbitrator commit misconduct

Finally, CCI argues that the arbitrator engaged in misconduct by sua sponte awarding Improv West injunctive relief. There are two problems with CCI's argument. First, the arbitrator's grant of injunctive relief was not sua sponte. The record indicates that prior to the arbitrator's entry of its final award, Improv West had repeatedly requested injunctive relief. *See, e.g.*, Arb. Rec., Ex. 82, 112, 113. Second, even if Improv West had not sought such relief, CCI has not cited any case law or other authority that says the sua sponte award of injunctive relief constitutes "misconduct" under 9 U.S.C. §10(a)(3). The arbitrator's grant of injunctive relief does not warrant vacation of the arbitration award.

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[3] CCI also argues that the arbitrator committed misconduct when he refused to hear evidence on the effect that the non-compete clause would have on CCI's business. *See* 9 U.S.C. §10(a)(3) (permitting district court to vacate arbitration award "where the arbitrators were guilty of misconduct in refusing to . . . hear evidence pertinent and material to the controversy"). CCI's argument is unpersuasive. The arbitrator in this case decided that California courts have rejected a "rule of reason" analysis in the context of non-competes. This ruling, which was not irrational, rendered CCI's evidence immaterial. Therefore, the arbitrator did not commit any misconduct.

III. CONCLUSION

Defendant's motion to confirm the arbitration award is granted.

IT IS SO ORDERED.

Dated: April 12, 2005

/s/ _____
Wm. Matthew Byrne, Jr.
United States District Judge

APPENDIX F

United States District Court for
the Central District of California

Case No. CV 03-8134 WMB (AJWx)

COMEDY CLUB, INC., a Louisiana corporation;
Al Copeland Investments, Inc.,
a Louisiana corporation,

Plaintiffs,

v.

IMPROV WEST ASSOCIATES, a California
Limited Partnership; California Comedy, Inc.,
a California corporation,

Defendants.

May 4, 2005

JUDGMENT

The Motion to Confirm Arbitration Award filed by Defendants-Petitioners Improv West Associates and California Comedy, Inc. ("Petitioners") came before this Court for hearing on April 6, 2005, before the Honorable Wm. Matthew Byrne, Jr., in Courtroom 9 of the United States District Court. Based on the papers submitted in favor of and in opposition to the motion, the files and records in this action, all matters brought to the attention of the Court before its

decision, and matters of which the Court may take judicial notice, and further to its Order Confirming Arbitration Award dated April 12, 2005, and entered April 14, 2005, the Court orders and enters judgment as follows:

IT IS ORDERED THAT the Partial Final Arbitration Award of the Arbitrator dated February 25, 2005, including all awards of monetary, declaratory, and injunctive relief therein, be and the same hereby is CONFIRMED pursuant to the Federal Arbitration Act, 9 U.S.C. §9.

IT IS FURTHER ORDERED THAT Plaintiffs-Respondents Comedy Club, Inc. and Al Copeland Investments, Inc. ("Respondents") shall pay to Petitioners pre-judgment interest of five percent (5%) per annum, pursuant to Cal. Civ. Code §3287, on the monetary component of the Partial Final Arbitration Award through April 6, 2005, in the amount of $2,060.34.

IT IS FURTHER ORDERED THAT Respondents shall pay to Petitioners post-judgment interest pursuant to 28 U.S.C. §1961 from the date of this Judgment through the date of payment of the monetary portion of the Partial Final Arbitration Award.

Dated: May 4, 2005

Hon. Wm. Matthew Byrne, Jr.
United States District Judge

APPENDIX G

United States District Court for
the Central District of California

Case No. CV 03-8134 WMB (AJWx)

COMEDY CLUB, INC., a Louisiana corporation;
Al Copeland Investments, Inc.,
a Louisiana corporation,

Plaintiffs,

v.

IMPROV WEST ASSOCIATES, a California
Limited Partnership; California Comedy, Inc.,
a California corporation,

Defendants.

Aug. 29, 2005

JUDGMENT CONFIRMING FINAL ARBITRATION AWARD

Based on the papers submitted in favor of and in opposition to the Motion to Confirm Arbitration Award filed by Defendants-Petitioners Improv West Associates and California Comedy, Inc. ("Petitioners"), the files and records in this action, all matters brought to the attention of the Court before its decision, and matters of which the Court may take judicial notice, and in accordance with the Stipulation

And Order Re Confirmation Of Final Arbitration Award, Preservation of Arguments Pending Appeal, And Stay Of Judgment Pending Appeal filed by the parties and entered by the Court, the Court orders and enters judgment as follows:

IT IS ORDERED THAT the Final Arbitration Award of the Arbitrator dated May 20, 2005 be and the same hereby is CONFIRMED pursuant to the Federal Arbitration Act, 9 U.S.C. §9.

IT IS FURTHER ORDERED THAT Respondents shall pay to Petitioners post-judgment interest pursuant to 28 U.S.C. §1961 from the date of this Judgment through the date of payment of the monetary portion of the Final Arbitration Award.

Dated: Aug. 25, 2006

Hon. Wm. Matthew Byrne, Jr.
United States District Judge

APPENDIX H

American Arbitration Association

Case No. 72 181 00274 04 NADE

IMPROV WEST ASSOCIATES and
CALIFORNIA COMEDY, INC.,

Claimants,

v.

COMEDY CLUB, INC. and
AL COPELAND INVESTMENTS, INC.,

Respondents.

May 20, 2005

FINAL ARBITRATION AWARD

THE UNDERSIGNED ARBITRATOR, having been designated in accordance with Section 22 of the Trademark License Agreement among the parties dated June 13, 1999, as amended (the "Agreement"), and having been duly sworn, having duly heard the proofs and allegations of the Parties, and Respondents having withdrawn their counterclaim respecting booking fees, and having previously rendered a Partial Final Arbitration Award dated February 25, 2005, does hereby issue this FINAL AWARD as follows;

1. The arbitrator previously issued a Partial Final Award dated February 25, 2005 (the "Partial

Final Award"), which decided all claims submitted for decision, except for Respondent's booking fee claim alleged in paragraphs 5-7 of the Second Amended Counterclaim. In the Partial Final Award the arbitrator expressly retained jurisdiction to determine the booking fee claim and to allocate among the parties the administrative fees of the American Arbitration Association ("Association") and the fees of the arbitrator.

2. The parties have advised the arbitrator that Respondents' booking fee claim alleged in the Second Amended Counterclaim has been dismissed without prejudice and notice has been duly given to the parties of such dismissal. Accordingly, no decision will be made respecting that counterclaim.

3. Claimants are the prevailing parties in this matter and are entitled to recover all administrative fees of the Association and arbitrators' fees deposited by Claimants with the Association, except for such administrative and arbitrator's fees attributable to booking fee counterclaim, as to which there is no prevailing party. All administrative and arbitrator fees attributable to the booking fee counterclaim are to be borne by each party on a 50/50 basis.

4. Based on the findings in paragraph 3 above, the administrative fees of the Association and arbitrators' fees shall be borne as follows:

The administrative fees of the Association totaling $3,600.00 shall be borne by Respondents, in that none of such fees related to the dismissed booking fee

counterclaim. The compensation of the arbitrator totaling $42,237.00 and the expenses of the Arbitrator totaling $463.53 shall be borne as follows: All of these fees and costs are to be borne by Respondents, except that arbitrators' fees in the amount of $1,600.00 relate to the booking fee counterclaim and shall be borne equally by both parties. Therefore, the compensation and expenses of the Arbitrator totaling $42,700,53 shall be borne $800.00 by Claimants and $41,900.53 by Respondents. Pursuant to these findings, Respondents shall pay to Claimants the sum of Twenty-Two Thousand Nine Hundred Fifty Dollars and Twenty-Nine Cents ($22,950.29), representing its share of amounts previously advanced to the Association. These amounts reflect all payments made to date.

5. The amounts awarded herein are separate from and in addition to any amounts awarded pursuant to the Partial Final Award.

6. This Award and the Partial Final Award decide all claims submitted to the arbitrator for decision. Any claims, contentions or defenses not mentioned in this Award or the Partial Final Award are hereby denied.

Dated: May 20, 2005

Richard R. Mainland
Arbitrator

APPENDIX I

American Arbitration Association

Case No. 72 181 00274 04 NADE

IMPROV WEST ASSOCIATES and
CALIFORNIA COMEDY, INC.,

Claimants,

v.

COMEDY CLUB, INC. and
AL COPELAND INVESTMENTS, INC.,

Respondents.

Feb. 25, 2005

PARTIAL FINAL ARBITRATION AWARD

THE UNDERSIGNED ARBITRATOR, having been designated in accordance with Section 22 of the Trademark License Agreement among the parties dated June 13, 1999, as amended (the "Agreement"), and having been duly sworn, and having duly heard the proofs and allegations of the Parties, does hereby issue this PARTIAL FINAL AWARD as follows:

For the reasons set forth in the Arbitrator's Orders dated September 7, 2004, October 22, 2004, January 31, 2005, and February 17, 2005, the Arbitrator finds and awards as set forth below. Except as

otherwise defined, capitalized terms in this Award shall have the meanings set forth in the Agreement.

1. Respondents Comedy Club, Inc. and Al Copeland Investments, Inc. ("Respondents") failed to fulfill the development schedule under the Agreement, and such failure was not excused;

2. Claimants Improv West Associates and California Comedy, Inc. ("Claimants") were entitled to exercise the remedy set forth in Section 13.b. of the Agreement based upon Respondents' failure to fulfill the development schedule, which Claimants did on October 15, 2002;

3. As a result of Respondents' development schedule default and Claimants' exercise of their Section 13.b. remedy, Respondents lost the right, power, and License (i) to use the Trademarks in connection with any Clubs which were not, as of October 15, 2002, under construction or open for business and operated by Respondents, an Affiliate of Respondents, or other Operator and (ii) to sub-license Third Parties to use the Trademarks in connection with any new Clubs, and these rights reverted to Claimants;

4. As a result of Respondents' development schedule default and Claimants' exercise of their Section 13.b. remedy, Claimants are (and, from the date the remedy was exercised, have been) entitled to open and/or license new Clubs in the Territory; provided, however, that as noted in the September 7, 2004, Order re Motions for Summary Adjudication,

this Award does not decide whether Claimant would violate the covenant of good faith and fair dealing by opening a Club in a metropolitan area where Respondents presently operate a Club;

5. Section 9.j. of the Agreement is a valid and enforceable in-term covenant not to compete and shall remain valid and enforceable within the United States for the remaining Term of the Agreement;

6. Respondents and their Affiliates are enjoined for the remaining Term of the Agreement from owning or operating any bar, restaurant, nightclub, or other facility which presents live stand-up or sketch comedy performances or live improvisational performances, other than (i) the Melrose Improv and Second City, (ii) existing Clubs operated by Respondents, an Affiliate of Respondents, other Operator that were under construction or open for business as of October 15, 2002, and (iii) any additional Clubs as Claimants may authorize Respondents or their Affiliates to open or other Clubs licensed by Claimants in which Respondents or their Affiliates have acquired or may acquire an interest;

7. Respondents and their Affiliates are enjoined for the remaining Term of the Agreement from changing the name of any of their existing Clubs and continuing to operate any such club as a bar, restaurant, nightclub or other facility which presents live stand-up or sketch comedy performances or live improvisational performances, and so long as those Clubs are

open, Respondents shall pay Claimants the fees and royalties provided in the Agreement;

8. Claimants are entitled to retain the non-refundable advances made by Respondents pursuant to Sections 6.b. and 12.b. of the Agreement with respect to periods through June 2002;

9. Respondents shall recover from Claimants the sum of $50,000, reflecting the total amount of advances made by Respondents pursuant to Section 6.b. and 12.b. of the Agreement with respect to periods after June 2002. Claimants may, at their election, credit such amount against any amounts due from Respondents to Claimants, including but not limited to the amount due pursuant to paragraph 10 hereof, or pay such amounts to Respondents; and

10. Claimants are the prevailing parties in this Arbitration and the related District Court action to compel arbitration, except with respect to the separate and independent counterclaim as to booking fees in paragraphs 5-7 of Respondents' Second Amended Counterclaim, which remains pending. Pursuant to Section 22 of the Agreement, Respondents shall pay to Claimants the reasonable attorneys' fees in the amount of $362,767.16 and costs in the amount of $16,261.96 that Claimants have incurred in this Arbitration and in the District Court action.

In light of the relief sought, the Arbitrator has found it unnecessary to decide Claimants' other claims of breach, and neither the Arbitrators' Orders nor this Award shall have any preclusive effect as

to those claims. Respondents' counterclaims (except with respect to the separate and independent counterclaim as to booking fees in paragraphs 5-7 of Respondents' Second Amended Counterclaim, which remains pending before the Arbitrator) are denied.

This Award is a final determination of the claims and counterclaims submitted for arbitration in the Amended Demand for Arbitration dated April 6, 2004, the more specific statement of claims asserted and relief sought dated June 15, 2004, and the Amended Answering Statement and Counterclaim dated June 25, 2004, and also of the counterclaim as to license fees set forth in paragraphs 1 through 4 of Respondents' Second Amended Counterclaim dated November 8, 2004. This Award does not decide Respondents' booking fee claim alleged in paragraphs 5-7 of the Second Amended Counterclaim, which remains pending. That claim is factually and legally separate from the claims determined by this Award. The Arbitrator believes that it would be in the interest of justice for this Award to be confirmable without further delay and intends this Award to be subject to immediate confirmation in any court of competent jurisdiction notwithstanding the pendency of a separate and independent claim before the Arbitrator.

The Arbitrator has retained jurisdiction to determine the booking fee claim alleged in the Second Amended Counterclaim and to allocate among the

parties the administrative fees of the American Arbitration Association and the fees of the Arbitrator.

Dated: February 25, 2005 /s/ Richard R. Mainland
Arbitrator

APPENDIX J

American Arbitration Association

Case No. 72 181 00274 04 NADE

IMPROV WEST ASSOCIATES and
CALIFORNIA COMEDY, INC.,

Claimants,

v.

COMEDY CLUB, INC. and
AL COPELAND INVESTMENTS, INC.,

Respondents.

Oct. 22. 2004

Respondents Comedy Club, Inc. and Al Copeland Investment, Inc. (collectively "Respondent") have moved for reconsideration of the arbitrator's summary adjudication order. Claimants Improv West Associates and California Comedy, Inc. (collectively "Claimant") oppose the motion for reconsideration and have filed a supplemental motion for summary adjudication.

The arbitrator has read and considered the motions, the memoranda, the separate statements of undisputed facts and exhibits filed therewith, and has considered the arguments of counsel at a hearing on

October 22, 2004. The motions having been submitted for decision, the arbitrator denies the motion for reconsideration and grants the supplemental motion for summary adjudication. The arbitrator's reasons are briefly summarized below.

I. RESPONDENT'S MOTION FOR RECONSIDERATION OF SUMMARY ADJUDICATION ORDER

This motion amplifies an argument made in Respondent's reply memorandum (pp. 17-20), which the arbitrator considered in making his summary adjudication ruling. The present motion is not a motion for reconsideration in the usual sense – no new law or newly discovered facts are cited. However, arbitration procedures are more flexible than court litigation and the motion will be considered on the merits.

Decisions assessing covenants not to compete under California Business & Professions Code §16600 consider whether the contract imposes total or partial restraints. *Campbell v. Board of Trustees,* 817 F. 2d 499 (9th Cir. 1987). However, unlike some other states, California does not apply a "reasonableness" test in assessing the validity of a contractual restriction under § 16600. *Campbell,* supra at 502; *Commercial Packaging. Inc. v. TIPS Package Engineering. Inc.,* 126 F. 3d 1131, 1133 (9th Cir. 1997).

As determined in the summary adjudication order, the covenant not to compete in paragraph 9j of

the Trademark License Agreement is a partial restraint on Respondent's ability to engage in the comedy club business. Indeed, the Agreement provides a framework for Respondent to engage in the comedy club business during the term of the Agreement, but only as a licensee of Claimant.

Respondent argues that the covenant not to compete in paragraph 9j of the Trademark License Agreement will unreasonably impact Respondent, because of the limited number of clubs Respondent currently operates, the uncertain financial status of these clubs and Respondents' loss of its right to license additional clubs under the Agreement. This type of "unreasonableness" argument is not available under California law. *Id.* Moreover, Respondent's loss of the right to license new IMPROV clubs results from its own breach of the Agreement by failing to meet the development schedule, and Respondent should not be allowed to use its own default to invalidate an otherwise valid partial restraint on competition.

Dayton Time Lock Service, Inc. v. The Silent Watchman Corp., 52 Cal. App. 3d 1 (1975), relied on by Respondent, is inapplicable. That case involved an attack on an exclusive dealing contract under the antitrust laws. The cases cited in the portion of the *Dayton* opinion relied on by Respondent involved validity of exclusive dealing contracts under the federal Sherman Act. The type of "rule of reason" analysis applied in antitrust cases – involving the determination whether a particular agreement unreasonably restricts competition generally in a defined geographic

and product market – is not applicable to a determination of illegality under Section 16600. California's antitrust statute, the Cartwright Act, is separate and distinct from §16600 of the Business & Professions Code. See B&P Code, § 16700, *et seq.*

Accordingly, the motion for reconsideration is denied.

II. CLAIMANT'S SUPPLEMENTAL MOTION FOR SUMMARY ADJUDICATION

This motion seeks a ruling that a breach by Claimant of paragraph 10 of the October 19, 1999 Amendment to Trademark License Agreement does not excuse Respondent's obligation to meet the development schedule for new clubs contained in paragraph 1 of the Amendment

The motion raises the issue whether the covenant in paragraph 10 is also a condition to Respondent's obligation to comply with the development schedule in paragraph 1. If paragraph 10 is a only a covenant, a breach by Claimant would give rise to a claim for damages, but would not excuse Respondent from its obligation to perform under paragraph 1. If, on the other hand, paragraph 10 is also a condition a breach would excuse Respondent's obligation to perform. Witkin, *Summary of California Law.* Contracts, §723; Williston on Contracts, §38.5. Determining whether a contractual covenant is also a condition is a matter of interpreting the contract language to determine the parties' intent.

Respondent concedes that performance of the paragraph 10 covenant was not a condition precedent to its development schedule obligation, but argues that the two covenants were concurrent conditions, relying on a "presumption" that covenants in a bilateral contract which to be performed during the same general time period should be presumed to be conditions concurrent. The arbitrator does not read the authorities cited by the parties as establishing such a sweeping presumption. The "concurrent conditions" cases cited by Respondent involve transactions for the sale of property or situations in which the parties were to exchange consideration (e.g., a deed and a purchase price) at the same time. *See Ninety Nine Investment, Ltd v. Oversas Courier Service,* 113 Cal. App. 4th 1118 (2003); *Rubin v. Fuchs,* 1 Cal. 3d 50 (1969). Respondent also cites cases where there was a clear failure of consideration owed by one party, *Pry Corporation of American v. Leach*, 177 Cal. App. 2d 632 (1960), or where the parties agreement clearly intended a condition to exist. *Wiz Technology, Inc. v. Coopers Lybrand LLP,* 106 Cal. App. 4th 1 (2003). The arbitrator believes that these cases are factually distinguishable from the present case.

Here, the Amendment does not contain language indicating that performance of the obligation in paragraph 10 was intended to be a condition to Respondent's development schedule obligation (although the absence of such express language is not determinative of the issue). In paragraph 10 Claimant agrees only to use its "best efforts" to "clear up" unspecified

issues relating to Claimant's "franchise deals." No time is specified for using these "best efforts." There is no definitive commitment that the "issues" will in fact be "cleared up." The development schedule provision in paragraph 1, by contrast, is highly specific in the number and time of opening new clubs over a period of several years.

The paragraph 10 covenant is not directly linked to Respondent's development of new clubs, but rather concerns Claimant's dealings with other licensees in geographical areas outside Respondent's territory. In view of the contractual language and the nature of these two quite different covenants, the most reasonable interpretation is that a breach of paragraph 10 gives rise to a damages claim but does not excuse Respondents' failure to meet the development schedule. *See, e.g., Starr v. Davis,* 105 Cal. App. 632 (1930) (breach of covenant not to compete by seller of a business did not excuse buyer's duty to pay purchase price); *Consumer Action v. Wells Fargo Bank*, 2002 WL 818256 (" . . . where the promises are to be performed at different times, they are generally deemed independent covenants and not concurrent conditions"); *Kaupke v. Lemoore Canal and Irrigation Co.*, 20 Cal. App. 2d 554, 557 (1937); Witkin, *supra,* §754.

For these reasons the supplemental motion for summary adjudication is granted. This ruling is based on the factual record developed in the original cross-motions for summary adjudication filed by the parties and in connection with Claimant's supplemental motion for summary adjudication. These motions

followed document production conducted by the parties relating to the summary adjudication issues. Good cause has not been shown for any further expansion of the factual record in connection with the motion.

Because the issue can be resolved as a matter of contractual interpretation, it is not necessary to reach or decide the separate issue of whether Respondents' alleged failure to make a payment to Claimant resulted in a loss of exclusivity of the license or gave Claimant the right to open or license new clubs in the Territory.

Dated: October 22, 2004

Richard R. Mainland
Arbitrator

APPENDIX K

American Arbitration Association

Case No.: 72 181 00274 04 NADE

IMPROV WEST ASSOCIATES and
CALIFORNIA COMEDY, INC.,

Claimants,

v.

COMEDY CLUB, INC. and
AL COPELAND INVESTMENTS, INC.,

Respondents.

Sept. 7, 2004

ORDER RE MOTIONS FOR SUMMARY ADJUDICATION

Claimants Improv West Associate and California Comedy, Inc. (collectively "Claimant") has moved for summary adjudication in this arbitration. Respondents Comedy Club, Inc. and Al Copeland Investment, Inc. (collectively "Respondent") opposes Claimant's motion and has cross-moved for summary adjudication.

The arbitrator has read and considered the motions, the memoranda, the separate statements of undisputed facts and exhibits filed therewith, and has considered the arguments of counsel at the

hearing on August 10, 2004. The motions having been submitted for decision, the arbitrator grants the summary adjudication motion of Claimant, and denies the motion for summary adjudication of Respondent, on the terms end conditions set forth hereinbelow.

I. THE APPLICABLE LEGAL STANDARDS

The June 13, 1999 Trademark License Agreement, as amended (the "Agreement") contains an arbitration clause and a clause selecting California law. Claimant's Motion, Ex. A, ¶¶17 and 22. Under California law, orders equivalent to summary judgment or summary adjudication of issues may be rendered in arbitration based on documentary evidence and without live testimony. *Schlessinger v. Rosenfeld, Meyer & Susman*, 40 Cal, App. 4th 1096 (1995). The parties and the arbitrator are not bound to follow the specific rules, procedures and technical requirements contained in Section 437c of the Code of Civil Procedure, California's summary judgment statute. *Id.* at 1104. However, the basic purpose of summary adjudication in arbitration is the same as in court proceedings – to decide issues as a matter of law where there is no genuine dispute as to the facts.

II. FACTUAL BACKGROUND

Claimant has for many years operated comedy nightclubs under the "IMPROV" name and has licensed others to operate comedy clubs using that

name. Claimant's flagship club was the IMPROV club on Melrose Avenue in Los Angeles.

In 1998 Al Copeland, a New Orleans, Louisiana restaurateur, negotiated with Claimant for a transaction that would expand the IMPROV franchise nationwide. These negotiations culminated in the Agreement, as well as an agreement for sale of the Melrose club to Respondent.

The Agreement granted to Respondent "the exclusive right, power and license" to use the IMPROV trademarks in comedy clubs nationwide, except for areas covered by Claimant's existing licenses and certain areas in Nevada and Mississippi (the "Territory"). The Agreement was for a 20-year term through May 31, 2019, with an option by Respondent to renew for an additional 10 years through 2029.

Paragraph 12 of the Agreement sets forth a development schedule for the opening of a minimum number of new clubs by Respondents during the early years of the contract term. Under an amendment effective October 19, 1999, Respondent agreed to open 4 clubs in each of the 3 years ending October 31, 2001, 2002 and 2003, respectively, for a total of 12 clubs by October 31, 2003 (the "development schedule"). Claimant's Ex. B, ¶1.

The parties agree that Respondent did not meet the development schedule. Claimant's Statement of Undisputed Facts ("CSUF"), ¶4; Respondent's

Response to Claimant Statement of Undisputed Facts, ¶4.[1]

Paragraph 13.b of the Agreement provides the following "sole remedy" for a failure to fulfill the development schedule:

> Upon notice to Licensee. Licensee shall lose the right, power and License (i) to use (he [IMPROV] Trademarks in connection with any Clubs which are not, as of the date of such failure, under construction or open for business and operated by Licensee, an Affiliate of Licensee or other Operator and (ii) to sub-license Third Parties use the [IMPROV marks] in connection with any new Clubs.

On October 15, 2002, Claimant gave written notice of its intent to declare an "Event of Default" under Paragraph 13.b of the Agreement, including

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[1] The parties' versions of how many Clubs Respondent opened and by what dates is somewhat conflicting. Claimant's Motion states that by October 13, 2002, Respondent had opened three Clubs, falling five short of the required number, and that Respondent is part owner of three other Clubs along with Claimant's long-time licensee. Claimant's Motion at p. 5. Respondent states that by October 2002. It was "operating or franchising 6 Clubs." Cross-Motion at p. 8. It is unclear whether Respondent contends that these 6 Clubs qualify for purposes of the development schedule. However, in view of the parties' agreement that the development schedule was not met, the Motions may be decided without determining the precise number of qualifying Clubs opened by Respondent by the applicable deadlines.

termination of Respondent's right, power and license to use the IMPROV marks in connection with any Clubs which were not, as of October 13, 2002, under construction or open for business. CSUF, Ex. C.

By late 2003 various disputes had arisen under the Agreement. Most significantly, Claimant contended that Respondent had lost its exclusivity rights under the Agreement and that Claimant was free to develop Clubs in Respondent's territory, either on its own or through licensees. Respondent maintained, to the contrary, that it retained these exclusivity rights, precluding Claimant from opening Clubs in the territory. In addition, a dispute had arisen regarding paragraph 9.j of the Agreement which provides:

> "Licensee shall not own or operate, and Licensee shall ensure that none of its Affiliates shall own or operate any bar, restaurant, nightclub or other facility which presents live stand-up or sketch comedy performances or live improvisational performances, other than the Melrose Improv or a Club, or Second City."

Claimant contended that this covenant not to compete prevented Respondent from opening Clubs in the territory under non-IMPROV trade names, while Respondent contended that this covenant was unenforceable under Section 16600 of the California Business & Professions Code.

On November 7, 2003, Respondent filed a declaratory relief action in the federal court in Los

Angeles. *Comedy Club, Inc., et al., v. Improv West Associates, et al.*, U.S. Dist. Ct., C. D. Cal., Case No. CV-03-8134 WMB. On March 5, 2004, Claimant demanded arbitration of the parties' disputes. Thereafter, the District Court granted Claimant's motion to compel arbitration of the claims alleged in the federal action. Respondent thereupon asserted its claims against Claimants by a Counterclaim in this arbitration.

III. THE PARTIES MOTIONS FOR SUMMARY ADJUDICATION

A. The Legal Consequences of Respondent's Failure to Meet the Development Schedule.

Claimant contends that upon Respondent's failure to meet the development schedule Claimant was entitled to open new Improv clubs in the previously licensed Territory and to license others to open such clubs, i.e., to continue the national development of the IMPROV brand. Respondent argues, to the contrary, that even if it lost the right to open or sub-license new clubs, it retained the exclusive rights to the IMPROV trademarks in the Territory, thereby precluding Claimant and its licensees from doing so. Respondent has cross-moved for summary adjudication on this issue and also has moved for summary adjudication that Claimant breached the Agreement by licensing the IMPROV marks for a Houston area club. Respondent's Cross-Motion, p. 14. This dispute is resolvable on summary adjudication, because it is one

of contractual interpretation and is not the subject of factual disputes.[2]

Under California Law, contracts should be interpreted to carry out the expressed intentions of the parties. Cal. Civ. Code, §1636. Where the contract language is clear and explicit and does not lead to absurd results, the analysis need go no further. *Shaw v. Repents of the University of California*, 58 Cal. App. 4th 44, 53 (1997). However, this rule is qualified by other principles of contractual interpretation. For example, the words of a contract may be explained by reference to the circumstances under which the contract was made. (Civ. Code §1647.) And literal language of a contract does not control if it leads to absurdity or if it is wholly inconsistent with the main intention of the parties (Civ. Code, §§1638, 1653).

Construing the Agreement in light of these principles, the arbitrator finds that upon Respondent's failure to fulfill the development schedule Respondent lost the right to open new IMPROV clubs and lost the exclusivity of its license, i.e., Claimant became entitled to operate and license IMPROV clubs in the Territory. The arbitrator bases this conclusion on his interpretation of the language of the Agreement and upon the surrounding circumstances and

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[2] Respondent does contend that, assuming Claimant's construction of the Agreement is accepted, there it a factual issue concerning whether its development schedule default was excused by Claimant's alleged breaches of the Agreement, as amended. This argument is discussed in Part III(C) below.

purposes of the Agreement as evidenced by that language. The text of the Agreement grants to Respondent the "exclusive right, power and license" to use the IMPROV marks in connection with comedy clubs. (¶2.a). The arbitrator finds that the words "exclusive" modifies "right, power and license." Paragraph 13.b provides that upon Respondent's failure to meet the development schedule, it would "lose" that "right, power and license," in connection with new clubs. (¶13.b).[3] All rights not licensed to Respondent are reserved to Claimant (¶3.d). Therefore, upon Respondent's "loss" of the right to open new IMPROV clubs, that right reverted to Claimant.

Because Respondent lost its exclusive license in the Territory, the words "sole remedy" in paragraph 13.b do not preclude Claimant from opening IMPROV clubs in the Territory. The right of Claimant to do so flows from Respondent's loss of its exclusive license. Respondent correctly points out that various detailed remedies are spelled out for "curable" defaults in paragraph 13.a of the Agreement, including an express provision in paragraph 13.a(3) allowing Claimant to "change the license from an exclusive to a non-exclusive license" and to open clubs in the Territory. However, in the arbitrator's view the fact that this remedy is spelled out in a detailed list of

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[3] The arbitrator does not accept Respondent's argument that capitalization of the word "License" in paragraph 13.b creates a "redundancy" requiring the arbitrator to accept Respondent's interpretation concerning loss of exclusivity.

alternative remedies in paragraph 13.a does not warrant the restrictive interpretation of paragraph 13.b contended for by Respondent, particularly in light of the purpose of the development schedule itself discussed below.

The Territory exclusively licensed to Respondent was large, comprising the 48 states less Nevada, a part of Mississippi, and several metropolitan areas previously licensed to other parties.

The purpose of the development schedule was to give Claimant the assurance that there would be sufficient expansion of the IMPROV franchise early in the contract terms to warrant the grant of such expansive and exclusive rights to Respondent. It is unreasonable to construe the Agreement to provide that Respondent could fail to meet the development schedule and retain its exclusive rights to the entire Territory. Under Respondent's interpretation of paragraph 13.d, its failure to develop clubs in the Territory would leave Claimant powerless to seek alternative ways of doing so. Such an interpretation appears directly contrary to the purpose of the development schedule requirement itself.

Respondent contends that retaining its exclusive rights throughout the Territory for the contract term would not necessarily "freeze" IMPROV development, because failure to meet the development schedule "simply shifts discretion to the Claimants as to whether they wish to halt further brand development altogether, or to waive the default and allow

development to go forth at a slower pace." Cross-Motion at p. 19. This argument fails to recognize another equally probable scenario: that Respondent chooses to cease further development of the IMPROV brand altogether, leaving Claimant (under Respondent's construction of the contract) with development frozen at an inadequate level for up to 20 years. Moreover, even with the loss of Respondents' exclusivity, development can also go forward "at a slower pace" if it is in the parties' mutual interests to do so. Claimant and Respondent are free to negotiate for new locations to be opened by Respondent in the Territory, notwithstanding its loss of contractual exclusivity in the Territory.

Because the arbitrator construes paragraphs 12.a and 13.b to provide for Respondent's loss of exclusivity upon a failure to meet the development schedule, Claimant's Motion is granted and Respondent's Cross-Motion on this issue is denied. It also follows that Claimant was within its rights in licensing a Club in the Houston area, and Respondent's cross-motion alleging a breach from such licensing is denied.[4]

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[4] In ruling that Respondent's development schedule breach resulted in a loss of Respondent's exclusive license in the Territory, the arbitrator does not decide, and expresses no opinion on, whether Claimant would violate the covenant of good faith and fair dealing by opening a Club in a metropolitan area where Respondent presently operates a Club. *See In re Vylene Enterprises, Inc., v. Naugles, Inc.*, 90 F. 3d 1472 (9th Cir. 1996).

B. The Covenant Not to Compete.

Section 16600 of the California Business & Professions Code provides that "[e]xcept as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade or business of any kind is to that extent void." This provision is "an expression of public policy to ensure that every citizen shall retain the right to pursue any lawful employment and enterprise of their choice." *Metro Traffic Control, Inc. v. Shadow Traffic Network*, 22 Cal. App, 4th 853, 859 (1994). Although the language of Section 16600 is broad in scope, court decisions have upheld agreements limiting competition in a variety of contexts. For example, it has been held that Section 16600 applies only to covenants preventing one from engaging in an entire business, trade or profession." *Campbell v. Board of Trustees of Stanford University*, 817 F. 2d 499, 502 (9th Cir. 1987). And covenants not to compete *during the term* of an employment agreement or distribution contract are regularly upheld. *Shaklee U.S., Inc. v. Giddens*, 1991 U.S. App. LEXIS 11617, *8-9 (9th Cir. 1991).

Respondent's principal argument is that Paragraph 9.j of the Agreement prohibits competition to the comedy club business *forever*, and thus cannot be upheld as an "in-term" covenant not to compete. The arbitrator disagrees. Paragraph 9.j is silent on the duration of the covenant. However, Section 3.a of the Agreement provides:

> Upon termination of this Agreement, the License and the rights granted hereunder and the obligations imposed hereunder shall cease, except that Licensee and any sub-licensee shall remain liable for any obligations remaining hereunder including obligations accrued as of the date of such termination and except as otherwise expressly set forth herein.

Nowhere in the Agreement is it "expressly set forth" that the covenant in paragraph 9.j extends beyond the termination of the Agreement. To overcome paragraph 3.d, Respondent points to the "survival clause" in paragraph 15 of the Agreement, which provides:

> All representations, warranties, covenants and agreements made by Licensor or Licensee in this Agreement or the Asset Purchase Agreement shall survive the termination of this Agreement, including the agreements to indemnify any party, and shall, except to the extent specifically limited elsewhere in this Agreement, be perpetual in term. The various provisions of this Agreement shall be severable, and the non-enforceability of one shall not affect the enforceability of the others.

Similar clauses have been interpreted to mean that the time to sue for breach of contractual covenants extends beyond the specified date – here the termination of the Agreement – not that the covenant themselves continue in existence beyond that date.

Herring v. Teledyne, 256 F. Supp. 2d 1118 (S.D. Cal. 2002). Where, as here, the contract does not specify a time period for bringing suit the statutes of limitations under applicable law apply and run from the time of the breach. *Id.*, at 1133. As so interpreted, there is no conflict between paragraphs 3.l and 15 of the Agreement.

There are other reasons why the covenant not to compete in paragraph 9.j. should not be interpreted to extend beyond the Agreement's term. To the extent the language of paragraphs 3.d and 15 are in conflict,[5] the arbitrator will construe the Agreement in a sensible way to carry out the parties' purpose and intent. As Claimant points out, it would make no sense to construe the agreement to extend indefinitely the covenants which apply only to operations during the term of the Agreement, such as covenants to provide financial information. The language of paragraph 3.d., contemplating termination of the parties' covenants upon termination of the Agreement "except as otherwise expressly set forth herein" is a more rational provision than one extending all contractual covenants forever. Respondent apparently agrees that the Agreement does not provide that *all* covenants extend indefinitely, but asks the arbitrator to conclude that the covenant in paragraph 9.j does

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[5] If such a conflict existed it would not be the only conflicting language in the Agreement. In its order compelling arbitration the District Court noted that the dispute resolution provisions of the Agreement were "internally inconsistent." See Order Sending Parties to Arbitration, filed July 30, 2004.

extend indefinitely. Respondent's Reply Memorandum, p. 13. However, there is no reason to resolve any ambiguity or conflict in contractual language by an interpretation that would render it unlawful. To the contrary, under California law a contract should "receive such an interpretation as will make it lawful, operative, definite, reasonable, and capable of being carried into effect, if it can be done without violating the intention of the parties." Cal. Civ. Code §§1643, 3541. The arbitrator construes paragraph 9.j as an in-term covenant not to compete, which expires upon termination of the Agreement.

The authorities cited by the parties support the enforceability of in-term covenants not to compete. Such covenants have been held enforceable during the terms of employments agreements, *Fowler v. Varian Assoc's Inc.*, 196 Cal. App. 3d 34, 44 (1987), supplier-distributor agreements, *Shaklee U.S., Inc. v. Giddens*, 1991 U.S. App. LEXIS 11617 (9th Cir. 1991), and franchise agreements. *Keating v. Baskin-Robbins*, USA, Co., 2001 WL 407017 (E.D.N.C.) (applying California law) and *Great Frame-Up Systems, Inc. v. Jazayeri Enterprises, Inc.*, 789 F. Supp. 253 (E.D. Ill. 1992) (applying California law). Although the reasoning in these decisions is sparse, they do emphasize that in-term restrictions are only "partial" restraints on competition, because the restrained party (whether employee, distributor or franchisee) may continue to engage in the relevant business during the term of his or her agreement with the employer, supplier or franchisor. Respondent

has not cited any decision invalidating in-term covenants not to compete under Section 16600.[6] The arbitrator finds, therefore, that paragraph 9.j of the Agreement is a valid and enforceable in-term covenant under California law.

Alternatively, even if the paragraph 9.j covenant could be construed to extend beyond the contract term, it is enforceable up to the end of the contract term under California's "rule of severability," allowing enforcement of overbroad covenants up to their lawful temporal and geographical limits, *Swenson v. File.*, 3 Cal. 3d 389, 395 (1970); *Hill Medical Corp. v. Wycoff*, 86 Cal. App. 4th 895, 908 (2001). These decisions are more applicable to the present fact situation than *Kolani v. Gluska*, 64 Cal. App. 4th 402, 407-08 (1998), relied on by Respondent, which declined to convert an invalid covenant not to compete into valid trade secret protection clause. *Latona v. Aetna U.S. Healthcare, Inc.*, is also distinguishable. *Latona* held that an employer violated California public policy by firing an employee who refused to sign a covenant not to compete that violated Section 16600. The covenant prohibited all competition by the employee for six months after termination of employment, and thus

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[6] Respondent has cited authorities striking down covenants not to compete in franchise or similar agreements *after* expiration of the contract term, but such decisions are inapplicable to paragraph 9.j as construed herein. *E.g., Scott v. Snelling and Snelling*, 732 F. Supp, 1034, 1042 (N.D. Cal. 1990); *Latona v. Aetna U.S. Healthcare, Inc.*, 82 F. Supp, 2d 1089, 1094 (CD, Cal. 1999).

clearly violated Section 16600. The Court held that the employer could not excuse its conduct by asking the Court to "reform" the contract to make it valid, either by excising the post-employment restraint or by converting it into a trade secret protection clause. The Court noted the *in terrorem* of allowing employers who require employees to sign invalid covenants to use the Courts to reform such agreements when challenged. Such fact situations are far removed from the present case, where the covenant does not expressly extend beyond the contract term and the parties are equally sophisticated and alert to their legal rights.

Respondent contends that the paragraph 9.j covenant is overly broad geographically and is unenforceable for that separate reason. To the extent the covenant covers the United States the arbitrator finds that it is geographically reasonable and enforceable. The exclusive Territory granted to Respondent by the original license – the territory the parties anticipated developing through Respondent activities-covered most of the United States, except for the areas already licensed by Claimant to other parties and the State of Nevada and a limited area in Mississippi which were reserved for separate development by Claimant. It is therefore not unreasonable to enforce the covenant in these same areas – the United States. The arbitrator expresses no opinion and does not decide whether the covenant is enforceable outside the United States.

C. Issues Not Summarily Adjudicated

It is the intent of this order to summarily adjudicate (i) the legal consequences flowing under the Agreement from Respondent's failure to meet the development schedule and (ii) the enforceability of the covenant not to compete in paragraph 9j of the Agreement. There are a number of other claims and/or defenses mentioned in the parties' summary adjudication briefs that are not adjudicated by this order.

Respondent contends that even if Claimant's interpretation of the Agreement regarding loss of exclusivity is accepted, Claimant's motion must be denied because there are "factual disputes" as to whether Respondent's development schedule default was excused. Cross-Motion at p. 30. Specifically, Respondent contends that its "failure to adhere to the development schedule was caused in part by Claimants' own failure to police its pre-existing licensees, and to exercise its contractual lights against them to bring them up to the quality standard set by Respondents." Cross-Motion at p. 30. This conduct, says Respondent, breached paragraph 10 of the October 19, 1999, amendment to the Agreement, which provides that "Improv West will provide its best efforts to clear up any and all issues related to its franchise deals." CSUF, Ex. B.

Respondent has also moved for summary adjudication in its favor respecting! Claimant's allegations of other breaches of the Agreement by Respondent.

Cross-Motion, pp. 22-28. These alleged breaches include failure to provide certain financial information, failure to make certain payments, anticipatory breach of the Agreement by leasing a site for an Atlanta club after loss of Respondent's right to open new clubs, and breach of the Agreement's arbitration clause by bringing the related federal action. Claimant did not move for summary adjudication on these separate alleged breaches.

These claims and defenses are not ripe for summary adjudication at this time. The parties' papers contain assertions of fact and arguments on these matters, and certain correspondence has been submitted that may have some bearing on them. However, the *evidence* before the arbitrator is inadequate to provide a sufficient basis for summary adjudication for or against either party on these issues. Although summary adjudication in arbitration need not follow the specific procedures under the California's summary judgment statute (C.C.P. §437c), it is essential, in the arbitrator's view, that summary adjudication in arbitration be based on facts established either by admissions of the parries or by uncontroverted competent evidence. No testimony of witnesses has been submitted, and even if the arbitrator considers all of the correspondence and other documents supplied in connection with these

motions, the adjudication on these fact-intensive matters cannot be done summarily.[7]

This order is without prejudice to either party moving for summary adjudication on any or all of these additional issues, which motions must be supported by competent evidence. Absent any such motions, these claims and defenses will be determined after the evidentiary hearing.

Dated: Sept. 7, 2004

/s/ _____
Richard R. Mainland
Arbitrator

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[7] The arbitrator specifically notes that he is not deciding at this time (i) what obligations, if any, were imposed on Claimant by paragraph 10 of the amendment to the Agreement (ii) whether, as a matter of law, a breach by Claimant of paragraph 10 would excuse Respondent's development schedule default, or (iii) whether Respondent must show that any alleged breach of paragraph 10 by Claimant caused Respondents' failure to meet the development schedule in order to excuse Respondent's development schedule default.

APPENDIX L

United States Court of Appeals, Ninth Circuit

NOS. 05-55739, 05-56100

COMEDY CLUB, INC., a Louisiana corporation;
Al Copeland Investments, Inc.,
a Louisiana corporation,

Plaintiffs-Appellants,

v.

IMPROV WEST ASSOCIATES, a California
Limited Partnership; California Comedy, Inc.,
a California corporation,

Defendants-Appellees.

Comedy Club, Inc., a Louisiana corporation;
Al Copeland Investments, Inc.,
a Louisiana corporation,

Plaintiffs-Appellants,

v.

Improv West Associates, a California Limited
Partnership; California Comedy, Inc.,
a California corporation,

Defendants-Appellees.

Jan. 23, 2008

ORDER ON PETITION FOR REHEARING AND REHEARING EN BANC

Before: JEROME FARRIS and RONALD M. GOULD, Circuit Judges, and KEVIN THOMAS DUFFY,* District Judge.

The opinion filed on September 7, 2007 and published at 502 F.3d 1100 is AMENDED as follows.

The final parenthetical in the first full paragraph on page 1114 states:

> (reasoning that a contract can not place "a substantial segment of the market off limits").

> The final parenthetical in the first full paragraph on page 1114 is deleted in its entirety and replaced with the following:(reasoning that a contract cannot place "a substantial segment of the market off limits").

> The second sentence in footnote 17 on page 1114 states: However, *Dayton Time Lock* made clear that it was assessing the requirements of CBPC §16600, and its plain language applied standards from antitrust cases in aid of its application of § 16600, which was an issue under review.

> The second sentence in footnote 17 on page 1114 is deleted in its entirety and replaced

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* The Honorable Kevin Thomas Duffy, Senior United States District Judge for the Southern District of New York, sitting by designation.

> with the following: However, *Dayton Time Lock* made clear that it was assessing the requirements of CBPC §16600, and its plain language applied standards from antitrust cases in aid of its application of § 16600.

The panel, as constituted above, has unanimously voted to deny the petition for panel rehearing. Judge Gould voted to deny the petition for rehearing en banc, and Judges Farris and Duffy have so recommended.

The petition for en banc rehearing has been circulated to the full court, and no judge has requested a vote on whether to rehear the matter en banc. Fed. R.App. P. 35(b).

The petition for panel rehearing and the petition for rehearing en banc are denied. No further petitions for rehearing or rehearing en banc will be accepted.

IT IS SO ORDERED.

APPENDIX M

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

COMEDY CLUB, INC., a Louisiana corporation; AL COPELAND INVESTMENTS, INC., a Louisiana corporation, Plaintiffs-Appellants, v. IMPROV WEST ASSOCIATES, a California Limited Partnership CALIFORNIA COMEDY, INC., a California corporation, Defendants-Appellees.	No. 05-55739 D.C. No. CV-03-08134-WMB Central District of California, Los Angeles ORDER (Filed Mar. 10, 2009)
COMEDY CLUB, INC., a Louisiana corporation; AL COPELAND INVESTMENTS, INC., a Louisiana corporation, Plaintiffs-Appellants, v. IMPROV WEST ASSOCIATES, a California Limited Partnership CALIFORNIA COMEDY, INC., a California corporation, Defendants-Appellees.	No. 05-56100 D.C. No. CV-03-08134-WMB Central District of California, Los Angeles

Before: FARRIS and GOULD, Circuit Judges, and DUFFY,* Senior District Judge.

Judge Gould voted to deny the petition for rehearing en banc, and Judges Farris and Duffy have so recommended.

The petition for en banc rehearing has been circulated to the full court, and no judge has requested a vote on whether to rehear the matter en banc. Fed. R. App. P. 35(b).

The petition for rehearing en banc is denied.

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* The Honorable Kevin Thomas Duffy, Senior United States District Judge for the Southern District of New York, sitting by designation.